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# THE PLEASURES OF PLANNING

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# THE PLEASURES
*of*
# PLANNING

BY

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# NOTE

This book has been written in the intervals of many and various duties solely to state a case. It does not pretend to be a scientific treatise, nor yet a judicial summary; I dare not even hope that I have avoided all mistakes. But of the truth and importance of its main contentions I have no doubt.

I.M.H.

# INTRODUCTION

In the old days when two and two made four, people managed their own business or went broke; but only a few old fogies remember those times, and all is now run by politicians on more modern lines, with the results we see around us. The world is safe for democracy, full of homes, heroes, Belisha beacons, Acts of Parliament and all kinds of cordial misunderstandings. At a series of brilliant Conferences, reparations and war debts have been either settled or not as the place may be. The world is so disarmed that Chicago looks like a rest-cure, while all the States Members of the League of Nations have agreed to call poison gas something else. We plan one another's lives and jobs till we run out of paper and ink. We subsidize and rationalize other people's business almost as fast as they investigate and co-ordinate ours. It snows statistics, we need an index of all the index numbers, Acts of Parliament pour out of the House in such a stream, that it is a wonder people aren't killed

crossing the floor;[1] while every morning, the kind and wise Minister of Agriculture, with his Quotas and Marketing Boards and the rest, shows us a new way to foresee the future and forget the past and avoid paying for either.

The author of this little book belongs to the gentlest and humblest ranks of society;—the back benches of the House of Commons, where you believe what you are told, do as you are told, and wish to God your constituents would do the same. But, I fear, it is all very disheartening, but, I fear, they are not really happy. Nothing seems to satisfy some people. The cry is for Action! What more, and what next can the aspiring politicians do? The author of this book is going to make a daring and novel suggestion to our bold and bright young things. How about a little quiet for a change? You think that a frivolous suggestion? May I try to explain?

[1] In 1933 Parliament passed some 145 Acts, and 1,165 Statutory Rules and Orders were issued.

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# Part One

# "STARVING IN THE MIDST OF PLENTY"

# CHAPTER I

NOBODY need mind very much when politicians promise to do the impossible; after all, somebody has got to be President of the United States. The trouble only begins when they try to do it. Half the confusion of the world today is due to the very simple fact that we all get hypnotised, by a lot of electioneering parrot-cries, into comparing the world, not with what it was, nor even with what it might soon be, but with what some fellow thinks it would be nice if it was, but it isn't. Take a typical example. How often have we heard some such phrase as "starving in the midst of plenty?" It is the stock text of half the demagogy of our time. We hear of the burning coffee and the stored wheat, the idle money and idle labour, and all the rest of it. How many magnificent funeral orations have been preached at St. Stephen's, Westminster, by Mr. James Maxton upon the text, "Capitalism is breaking down."

Now what exactly does this mean? Does it mean that the world's industry is ceasing to provide the needs of life? Palpably not. And it is only capitalism that has managed to do that. Even if we *were* starving in the midst of plenty, it is only capitalism that has produced the plenty, while starvation is nothing new in the world's history. But, so far, the "breakdown" of capitalism is much more comfortable for everyone than the sweetest running of any alternative has been. Is it the fact that the people of the world are not getting the products they all help to produce? That is simply not true. The stocks of no single important commodity have ever exceeded about a year's supply, and in hardly any commodity have they been more than a few months'. Further, practically every piece of surplus stock isn't due to any mysterious weakness of capitalism or any other "ism." It is simply due to some political nuisance spending public money on bribing people to grow and store things that the consumers had told him unmistakably that they didn't want: by refusing to pay the price he had promised the producers they should get. Wheat, rubber, coffee, wherever you turn

the same thing is true. We *are* consuming the goods we produce. We *are* better off than we have ever been. We *are* getting better off year by year.

The truth is that such a phrase is a double exaggeration. People aren't starving. Anyone who knows East London, for example, knows that, after ten years of the worst depression we have ever known, people are immeasurably better off in clothes, food, security, amusements, etc., than they were before the war, when we were supposed to be in a time of exceptionally good trade.

On the other hand, the "plenty" has been greatly exaggerated. It *is* true that the endless advance of countless private individuals seeking to satisfy the varied wants of consumers all over the world, is ever increasing the stream of available goods and services. But the stream is still not very much above the level to which we have grown accustomed. And it takes very little economic nationalism and social disorder to make it sink below that level, over wide areas of the world's surface. Anyone who travels about Europe, or a few parts of Great Britain, can see that for themselves. And why be

surprised? You might as well think it surprising that your home was disorganised, when the cook was waiting in the kitchen and the butcher boy was outside with the joint; but you had persuaded the cook to lock the kitchen door from the highest motives of patriotism, and the butcher boy was whiling away the time parading up and down the street, so busy being class-conscious that he had no time to be conscious of the claims either of his employer or his customer.

Consider an apparent exception to the improvement which has taken place in our conditions: the black spots of the North, and of South Wales. They are really exceptions that prove the rule, for both have been ruined by politics and nothing else. First they are mainly dependent on exports: what relevance has socialism or any other panacea to the problems with which they are faced? If India boycotts cotton, *any* conceivable society which depends on cotton exports, even a communist one, will suffer just as they have suffered. And the same is true of all international exchange—coal, shipping, what you will. If the democracies and autocracies of the world continue to agree

on only one thing—that they regard all their customers as their enemies—there is *no* solution, that any human ingenuity can frame which will avert misery from our great exporting districts. In fullness of time the surplus, derelict mines and miners, spindles and operatives, will have to disappear. In the old days, England exported coal and imported meat, and carried both in her own ships, which she built. Not so now, if the politicians can help it. Very well, but we must turn the Bible saying upside down:—he who will not eat shall not work. No imports, no employment, as far as Wales and the north-east coast are concerned. If Dorman Long wish to build a bridge in Sydney, if Metropolitan Vickers wish to build turbines in Buenos Ayres, if the Royal Mail wish to recoup their losses, or Sir Herbert Austin to increase his export profits, someone must eat and clothe himself from the carcases and fleeces of the flocks of the Empire and South America. Neither planner nor any other socialist can alter that simple fact.

But there is another reason more important still for pointing out these desolate areas as

warnings. They illustrate not only the results of political interference in business, in pursuit of economic nationalism, but they also show us some of the perils of socialism, even when it is only a danger in the future. These areas not only depend largely on exports but still more they depend essentially on confidence. They are the homes of the great capital-producing industries. They produce things that are absolutely no use whatever to the man or woman in the street. No one goes out to buy a steel girder or a cable, as he buys a shirt or a chop. Who does buy them and why? This whole conception of confidence is so vital to any understanding of what is really wrong with the world of recent years that I shall devote some pages to it later on.

The problem of our time isn't an economic problem at all. It is a political problem: the problem of how to protect economics from the politician—and how to protect the economical politician from his constituents. One market after another all over the world has been demoralised by efforts to escape the simple fact that if you produce a lot more

stuff than usual, and ask a lot more money than usual for it, the chances are that you won't sell it all. Unfortunately it is much easier, and more popular, to go on piling up in a warehouse (and on borrowed money) the surplus of something people are tired of, than it is to scrounge round and think of something new that they do want, and start making that at a price they will pay.

"But," many will say, "this is merely a plea for freer trade and less bureaucracy, and *laissez faire* has had its day:—to return towards the old ways is merely to re-enter the path that led us into all this misery. The old improvement was deceptive and contained within itself the seeds of its own destruction, as witness the intolerable waste and suffering all around us." Now were this true, few would listen overmuch to demands for caution. It would be the path of cowardice to eschew experiments, however bold. For their very novelty would increase the chance that they would be free from the inherent defects of the old world. As for their shortcomings when put into practice, surely we should choose the growing-pains of a vigorous new world, rather than the

short-lived convalescence of a doomed order of things.

Only all that ain't so! Capitalism is not breaking down: it is being nearly kicked to pieces. It was nothing to do with our economic system that the murder at Serajevo took place, nor was Germany's action twenty years ago anything to do with capitalism. Even the element of economic rivalry between her and ourselves would have been completely unaltered if both of us had been communist states. The monetary systems of the world were reduced to chaos during the war by the budget policies of all the belligerents. In plain English, they spent more than they could get by taxing or borrowing, and had to meet the balance by the concealed taxation of coin-clipping, sometimes called inflation. At the same time inevitably arose those fantastic expansions of war industries such as iron and steel, and the turning upside down of the international investment currents of the world. The ruin was continued (in spite of the desperate efforts of the banks, headed by the Bank of England, to detach the currencies of the world from politics), by the greed and folly of the peoples in

the allied countries in the matter of reparations and war debts.[1]

It is no fault of the economic system that economic nationalism has run mad in tariffs and quotas all over the world. In so far as these arise from economics at all (and mainly that is not the case) they are, on the contrary, the pet panaceas of the "planners" and "advanced" politicians who hate or despair of the old order of things.

It is to be admitted at once that, faced with all these and many other blows, the industrialists of all countries have succumbed to bribes such as subsidies, or accepted dangerous forms of compulsion such as marketing boards, in order to achieve a temporary breathing space. But there is no permanent solution to be found along these lines: they lead to ever closer and more complex bonds. Gradually disentangle them, soothe the excited passion, and heal the wounds due to the long years of war and extravagance and political interference, and then I see no reason to fear that the restoration of liberty, and renewed reliance on individual enterprise,

[1] It is true that some who should have known better, prophesied smooth things to those who desired such prophecies in the early days of reparations.

will reproduce the evils of our time. Those evils are due to quite other causes—causes which, if they be not avoided in the future, will wreck *any* currency system, *any* industrial system, and indeed any chance of civilisation continuing at all.

## CHAPTER II

I PROPOSE to devote the next few pages to supporting the arguments just put forward, which really reduce to two propositions. First, we are not in the presence of some unparalleled plenty and glut which we do not know what to do with; but, secondly, the general well-being of our people under capitalism, is nevertheless enormously greater than it has ever been, and is, on the average, increasing. After disposing of these two points the second part of my book will be devoted to examining very briefly the currency and banking proposals of the critics of our society, and the third and final part will be devoted to the group of proposals known generally as Planning, Socialism, State-control and so on.

I will take first a set of figures of great importance showing the real purchasing power, i.e. real consumption, of the working people of these islands. The details are given

below,[1] but two points emerge of the utmost importance—(*a*) during all the depression in these islands it is not true that a big falling off in consumption of the poorer people has taken place—the maximum variation is only about 10%. Of course, some of them are very much worse off than they were and others are better off, but on the average that is the net result. Since what has been made and imported has almost all been consumed, the figures also show, *a fortiori*, that, over these few crisis years, we have not been in the presence of a huge general increase in the flow of wealth. On the contrary, a slight decrease has taken place, at any rate as far as the mass of people of these islands is concerned. The apparent glut has taken place, not where the flow of wealth was increasing, but where it was decreasing temporarily and slightly. This result is, of course, quite compatible with the truth of what I said just now: that, ignoring

| [1] Year | * Total Monetary Purchasing Power | Year | Total Monetary Purchasing Power |
|---|---|---|---|
| 1924 | 1,590 | 1930 | 1,556 |
| 1927 | 1,633 | 1931 | 1,463 |
| 1928 | 1,613 | 1932 | 1,431 |
| 1929 | 1,616 | | |

* The Nation's Wages Bill plus net unemployment benefit, excluding all other receipts, e.g. from savings, pensions, etc. No allowance has been made for the *increase* in real purchasing power due to the fall in the cost of living. The figures are given in millions sterling.

the small and temporary fluctuations, the trend is upwards.

Next let us consider the actual amount of the National income in these islands. The following are the best attested figures (C. Clark) for the net total income of these islands:

| | | |
|---|---|---|
| 1911 | . | £2,012,000,000 |
| 1924 | . | £3,586,000,000 |
| 1929 | . | £3,996,000,000 |
| 1931 | . | £3,499,000,000 |

To allow for price changes, we should have to add about 70% to the 1911 figures to make them comparable with those for 1924, and add 7% and 10% respectively to 1929 and 1931. With these adjustments we get the following very rough but sufficiently close measures of the real consumable wealth accruing in those years (including all foreign income and without deducting anything for necessary savings, depreciation, etc.):

| | | |
|---|---|---|
| 1911 | . | £3,400,000,000 |
| 1924 | . | £3,600,000,000 |
| 1929 | . | £4,300,000,000 |
| 1931 | . | £3,750,000,000 |

In other words, in twenty years, with an increased population to provide for, we have

added about 10% to our available wealth. We have not suffered as much from the war as might have been expected, but we are certainly not overcome with unexpected wealth.

Consider the figures from another point of view—in 1931 even if every penny of it could have been divided equally between every family in the land (excluding this time foreign investment income, because that would obviously stop coming here, and allowing for the necessary continuance of home investment and social services) it would only have amounted to about £4 a week a family whether at work or not. Hardly an unmanageable glut of well-being, although of course far above that of any previously known standard of living for the masses of any great country until the Industrial Revolution took place.

It is interesting to make a very rough comparison with the United States, though the figures must be taken with some reserve. In 1929 the National income according to official statistics of the Department of Commerce was about £17,000,000,000 or roughly four times our own, which had to be divided between about three times as many people. In

1932 the income available is stated to have halved. This, although an official statement, is almost incredible, but there is no doubt that the reduction was enormously greater than anything we have had to suffer: owing to the superior management of our monetary machinery. If the variations in price are allowed for, the income per head of the United States increased between 1900 and 1929 by rather less than 50%. It was this increase which made possible the considerable increase in real welfare which has taken place. But, again, there is nothing in the nature of an unmanageable avalanche of production. Incidentally, it may be noted that the proportion going to wages and salaries steadily increased and had reached two-thirds of the whole in 1929. It showed no appreciable diminution during the crisis up to 1932, the latest available figures. Indeed, if we allow for business losses, and calculate the share going to wages and salaries in comparison with the wealth actually *produced* in 1932, the share of wages and salaries is actually over 80%, which is one more illustration of the complete falsity of Marxian delusion that the poor get poorer under capitalism.

There is a very important lesson to be drawn from these figures as regards our own policy in these islands. I think we may take it that ordinary Income Tax payers in the better-off section of the population have no difficulty in getting rid of their income. We have also seen that much the greater part of the National Income of modern industrial societies goes to the wage earners and salary earners. The proportion in England is about two-thirds, as it is in the United States. Yet this only gives them a very much smaller standard of life owing to their much greater number. It is surely absurd, therefore, to talk of a real glut of products until the standard of the wage earners (rising, as I have shown it is, all the time) at least approximates to the higher figures enjoyed by the comparatively small number of Income Tax payers. Mr. Clark estimates that there were in 1931 about 13 million insured persons who received about £1,700,000,000, i.e. about £130 per head, not allowing for the transfers due to taxation expended on the social services. So that if all these workers were to obtain an income of £5 a week (surely not beyond the dreams of avarice) the National income would

have to increase by about 50% When we remember that it had only gone up about 25% in 18 years before the world depression so terribly reduced it again, it is surely deceiving ourselves to talk as if we were faced with a new problem, namely what to do with an unmanageable glut of wealth.

It might be held that such figures were sufficient by themselves to establish my first point, but I think many people are doubtful of such calculations (though they are in fact incontrovertible). I will therefore give a few more particular facts chosen almost at random from the statistics available for this country and the United States. These may help to dispel the illusion arising from one or two very special cases of increased productivity. In the last thirty years, production, even in the United States where technological unemployment is supposed to have been such a problem, has had many fluctuations, but if we take mining, forestry, agriculture, manufacturing, and building all together, the volume of production per head of the population at the top of the 1929 boom was only 25% more than it was 25 years before, only about 5% more than pre-war,

and is now rather less than a generation ago! If we take industrial production per head up to the 1929 crash it had steadily risen over 30 years at almost exactly $2\frac{1}{2}\%$ (simple not compound) per annum. There was no great increase in this rate during the boom, and since then production has, of course, catastrophically —though we hope temporarily—diminished. If it remained at the present level, it would bring the production, and therefore the standard of living, back to the level of 1900!

Now let us look, not at the volume per head, but at the total physical volume of all production in the United States, which of course by common consent had the most rapid expansion ever known in history on a comparable scale. The facts are rather remarkable. The physical volume of all the production from mining, forestry, and fishing in 1929 was rising at almost exactly the same rate as it had done for a generation—it was only $2\frac{1}{2}$ times what it was 30 years before when the population was about 76 million instead of 120. And in 1913 it was almost exactly what it was in 1933. Agricultural production was increasing at a remarkably steady rate, about 60% in 30 years.

Manufacturing industry in the boom years was increasing at the same rate as it had done for a generation, in which time it had grown to just about three times what it was 30 years before. Taking American experience as a whole, the picture is one of a continuous rapid increase of production, not remarkably different in the recent years from what it was long ago.[1]

Another figure from America is of some significance. If we take the rate of production which we should expect in any given year, it is possible to calculate the deviation from year to year that has in fact occurred. This has been calculated[2] and the result added up from year to year, so that at any date one can see how much more or less had been produced than would have been produced if a steady rate of progress had been achieved. The results are remarkable: for all the main consumers' goods—food, drink, textiles, tobacco, etc., etc.—at the end of the boom there was only a surplus of two

[1] If we take the figures of world production of basic commodities, i.e. crops, minerals and metals, we find that the proportionate increase was practically steady in the half-century before the war, while it has never yet recovered (even prior to 1929) the halt in the rate of advance due to the war!

[2] Ayres.

months' production, and in the spring of 1934 the shortage was less than six months' production.

All this American evidence is borne out by the most recent elaborate investigation by the Brooking's Institute into America's capacity to produce. It turns out that at the very outside some 20% of her capacity was unused in 1929 and that this is largely accounted for by the inevitable maladjustments which in a real world always mean that some parts of the industrial structure are at a given moment overdeveloped in relation to other parts; and also by the obvious fact that where large capital expense is involved, particularly in such matters as the railways, a progressive country must always at any particular time be laying down plant which will only come to full use in future years. Moreover, a large part of the theoretical excess is simply due to the fact that at any time in an improving world there is a large amount of plant which is actually, or shortly will become, obsolete and will either never be used again, or will only become of use in circumstances where the price, for some reason, is rapidly advanced. Finally, of course, the theoretical

ideal of a hundred per cent. working is obviously impossible. The mere fact, for instance, of temporary breakdowns, plant out of service for repair and overhaul, and so on, makes this inevitable. The frequent allegation that the proportion of excess plant has been increasing over the last generation is exploded as a complete delusion even in America, where progress has been so rapid. In their own words, "the idea of a mounting surplus of industrial capacity would appear for the most part to be built on the superficial impressions of journalistic and academic writers unduly impressed by the conditions of depression years or even by seasonal slack."

These figures can be strengthened by the figures of world stocks of the important raw materials. It may surprise many who have been bemused by Mr. Elliott's everlasting talk about glut, to know that at no time in recent years has there been anywhere in the world enough wheat, copper, tin, cotton, zinc or silk, to supply six months' current production and even in the case of coffee and rubber (both peculiarly the victims of state interference) the maximum supplies were of the order of

12 months.[1] It cannot be over-emphasized that stocks may be sufficiently great to have a terrific effect on prices without being capable of supplying any spectacular increase in the standard of living. It is precisely because they have been held up by rings until they have to be liquidated on a sensitive market, that they do so much damage. A very little "distress" selling at a time of falling demand may easily demoralize prices. But the solution is not to enchain and limit production in perpetuity, it is on the contrary to avoid the errors which make prices artificial, so that goods are not produced under false pretences on the strength of Government guarantees or monopoly restrictions.

There are exceptions, no doubt, but, broadly speaking, it is not the industries where supplies have increased that suffer from "glut": it is the industries where supplies have decreased but demand has decreased still more. The total imports of beef have fallen steadily from considerably over 13 million cwts. in 1928 to just

[1] Rubber is particularly enlightening. If the world consumption of rubber in 1931 or in 1932 had been as great as it was in 1934 there would have been no increase in world stocks at all!

over 12 million cwts. in 1933. Yet if we turn to some industry where production really *has* increased, such as the motor car industry, we find that the number of private cars and taxis has risen from 132,000 in 1925 to nearly 221,000 in 1933 and commercial vehicles have risen from 35,000 to over 65,000, yet no one claims that there is a glut of motor cars. It is not the increase of supply that has caused apparent glut, it is a falling off in demand which has not been met by the necessary fall in prices. The same lesson could be shown by the statistics of artificial silk, electricity production and so on. In Great Britain artificial silk production has multiplied over four times in the last four years and electricity production nearly three times, yet the number of men employed is greater and there is palpably no "glut" of undisposable product.

This is, of course, borne out by the indices of production here, and also in almost all foreign countries. If 1929 be taken as the last fairly good pre-crisis year, then in comparison with 1934 production has of course not increased but diminished. The characteristic of depression is not a huge mass of unusable

wealth but a very much diminished demand, owing to disorganisation, for a less considerably, but nevertheless distinctly, diminished supply.

So far, some of the labour critics of restriction schemes are correct. Where they make their error is that the diminution in demand is not primarily due to a diminished consuming power of the wage earners, to be met by increasing their wages. This only makes matters worse, by still further destroying the branch of consuming power which *has* diminished, namely, profits. The problem is to get the output of the capital industries going again on an economic basis. This involves, on the one hand a re-creation of confidence in the investor and the employer, and on the other a reduction in the price of their products and the abandonment of artificially high monopoly prices.

It is important to remember further that the "glut" tells the same story in the most important field of all: the labour market. It simply isn't true that it is mainly in the field where labour productivity has most increased, that it has caused the serious unemployment: it

would be truer to say the reverse. I will give one example of many. The following figures have been given for the number of employees per week per car in a large English firm:

| | |
|---|---|
| 1922 | 55 |
| 1923 | 24 |
| 1926 | 12 |
| 1934 | 8 |

But did this increased mechanisation and productivity cause less men to be employed in that factory? On the contrary, in 1922 it employed just over 3,000 and in 1934, 16,000! It is precisely in those industries where the productivity of labour has been greatly increased that the expansion in employment (and incidentally the increase in wages) has taken place.

I turn now to the second point. If it be true that there is no sudden glut of inconsumable wealth to be dealt with, it is equally true that the steady accumulation of capital and invention, coupled in this country with a great machine of social protection for the wage earner, has over a long period enormously improved the well-being of the people. Real

wages in the United States are about a third higher than before the war, and they show a substantial, if not almost the same, increase in this country. The real improvement is much more widespread than mere figures can show, for invention has produced whole new possibilities of consumption. I refer not only to such things as the cinema, radio and transport facilities, but to articles of food:—refrigeration alone has made possible such revolutions in popular diet as are shown by the following figures of fruit imports into England.

| | |
|---|---|
| APPLES | |
| 1901 . . . . | 1,800,000 cwts. |
| 1931 . . . . | 7,600,000 ,, |
| PEARS | |
| 1901 . . . . | 349,000 cwts. |
| 1931 . . . . | 1,239,000 ,, |
| GRAPE FRUIT | |
| 1901 . . . . | nil cwts. |
| 1931 . . . . | 897,000 ,, |

Further, it is frequently argued as if all income going to rentiers went to very rich people. As a matter of fact, of course, a steadily increasing amount of capital is owned by small holders. The latest available figures show that the

National Savings movement plus the Building Societies and Provident and Friendly Societies, and such like, hold over £2,500,000,000 on behalf of these small holders;—a sum of about £250 per household of the population and it is still steadily increasing. It is worth recalling that in 1913 this figure was only £498,000,000, and even in 1925 it was less than £1,400,000,000! We may add to these figures the fact that the funds in the Industrial Assurance Companies have increased nearly 5 times in 20 years.

Let us turn to another type of evidence. Sir George Newman, the Chief Medical Officer of the Ministry of Health, in his exhaustive report for 1933 states that "the nutrition of the English people is better to-day than at any past period of which we have record." He shows that, even in the districts very badly hit by unemployment, there is so far no evidence of widespread or increasing malnutrition as a result. This is not to say, of course, that there are not individual cases—they have existed at all times—but broadly speaking, the health of the people is steadily improving though slower at some times than at others, but the trend is

up and not down. And these statements of his are not just general opinions, however well founded, they are based on the regular examinations of over 1,300 school doctors and over 5,000 nurses.

To make this general judgment a little more real, let us take, purely as one example out of pages in his report, the evidence of one of the largest, yet hardest hit, towns in England—Liverpool. The Liverpool Medical Officer of Health in 1933 said: "The evidence of the School Medical Department is that the nutrition of Liverpool school children as judged by their weight has improved, the average for the five years to 1931 being better than that in the five years to 1925 and the average weight in 1932 alone has been the highest yet recorded. We believe, too, that there has been an undoubted improvement in the health and physical condition of the toddlers during recent years in spite of unemployment." Further he states: "Taking a broad view of the whole problem the conclusion emerges that although a few individuals are suffering hardship and want, the population of this city as a whole is being adequately cared for and there are no evidences

of the general standard of health degenerating." It is fair to add that some anxiety is expressed with regard to the possible effect on the mothers' health, but no actual statistics are given to show that this has yet materialised.

Once again, take almost at random a few statistics with regard to health progress in the last half century. Half a century ago the average death rate per thousand was 21·4. In the last ten years the average has been 12·1. Half a century ago the infant mortality rate was 149 per thousand. In the last ten years it has been 72. The latest figure is 64 in a year of hot weather which used always to be a cause of greater mortality, but is now "inoperative," as stated in the Chief Medical Officer's Report owing to improved conditions. Let us make these figures a little more real. A generation ago—in 1900—143,000 children died under one year old. In 1930, although the population had increased, there were only 39,000 such deaths, and in 1933 under 37,000! Amongst young children from one to five years old, mortality is less than one quarter what it was half a century ago, while if we consider the figures of the school examinations for

under nourishment of young children, we find that although "the standard of examination for nutrition like the standard of cleanliness has risen almost beyond recognition" yet, while in 1910 in London 11% were under nourished, to-day there are under 1%.

Nor must we imagine that progress is confined to the comparatively well-to-do south. The infant mortality rate of Merthyr Tydfil has fallen all through the depression from 107 in 1929 to 90 in 1933 and in County Durham from 95 to 80. The percentage of mal-nutrition in Manchester in 1933 was a half what it was in 1929 and so was the percentage of rickets. The same was true in Newcastle and the height and weight of schoolchildren in Sheffield "shows a marked advance on those of 1928 and 1930."

The Chief Medical Officer of the Ministry of Health sums up the position in 1932 in these words: "Though especially sought for, of evidence of widespread mal-nutrition there is none. Thus we cannot escape the conclusion that there is at present no available medical evidence of any general increase of physical impairment in sickness or in mortality as the

result of the economic depression or unemployment."[1]

[1] The following passage in the report for 1932 of the Chief Medical Officer of the Ministry of Health is worth quoting *in extenso*:

"A few weeks ago a Medical Officer of the Health Department of the League of Nations made a brief survey of health conditions in this country in regard to this particular problem. He made a remark which may suggest part of the explanation: 'I have inspected in many countries and one difference I find is this; in England you have the medical machinery already available for meeting exceptional circumstances, and you are using it.' The observation is relevant. The Public Health Services of the Local Authorities cover the entire country. Those services have been growing up slowly for a century. They began long before with a provisional scheme of Poor Law relief; this was re-organised in 1834 and developed in due course into a Public Health Service, which, since 1875, has been extended to meet the environmental, sanitary, hospital, and housing needs of the people. Since the war one quarter of the whole population has been re-housed or is living in reconditioned houses.

"At the beginning of the present century a further expansion included public medical services for mothers, for infants, and for school children (now incorporating maternity provision, 2,800 education, maternity and child welfare centres for mothers and children, universal medical inspection of elementary school children with 1,800 treatment clinics and the provision of after care); twenty years ago came public medical services for special diseases (such as tuberculosis); and more recently a public hospital service for infectious and general diseases. At the maternity centres and in association with the school medical service there are effective arrangements for dealing with undernourishment, and there is the Education (Provision of Meals) Act (now incorporated in the Education Act of 1921). In this way an immense scheme of supplementary feeding is in daily operation for nursing mothers and for children up to the age of fourteen years. For instance,

To sum up, there is no general "glut" or prospect of one, but people are much better off than they ever were before. We are truly faced with great social problems to-day but it is difficult to speak with patience of the wicked,

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in 1932 there were provided 62 million school meals, and 900,000 other school children received supplementary milk.

"Moreover, since 1870 there has been, parallel with this health movement, a system of national education profoundly affecting the whole people. Among its manifold functions it undertakes the practice of hygiene and physical nurture for all children. Further, it trains annually approximately half a million of girls (aged 11–14) in home cookery and domestic hygiene (at 4,771 domestic and cookery 'centres'); and there are 3,000 additional cookery training courses for adolescent and adult women. It is impossible to suppose that this vast organisation on behalf of health and nutrition is without its influence in the homes of the people.

"But there are other agencies and influences in operation. There is the whole system of poor relief and public assistance. The number of persons (men, women, and children) in receipt of domiciliary or institutional relief on 1st January, 1933, was 1,375,645. There is the unemployment insurance, which assists approximately two million unemployed persons at the present date. There may be differences of opinion as to its administration, but there can be no doubt of its value as a form of assistance.

"There is the health insurance service in which 16,000 doctors are at the medical service of 16 million persons over sixteen years of age, with cash benefit, medical and disablement benefit, and a series of additional benefits for dentistry, nursing, etc. Where by failure to pay contributions due to unemployment these persons may unfortunately cease to be entitled to the insurance medical benefit, they can, in their need, have recourse to the public assistance medical service which is to a large extent rendered by the same medical practitioners as serve on the panel. Of

deliberate, and systematic misrepresentation that is going on all over the country about the condition of our people and the progress that is being made, which depends so much on the continued solvency and efficiency of the voluntary and statutory social services.

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this vast group of insured persons as many as 8 millions receive benefit every year. Other conditions have also proved auxiliary. Food is cheap, presented in many and varied forms, and more rapidly distributed and available to the mass of the people. Though unemployment itself seems to be an unmixed evil it must not be forgotten that in innumerable instances the unemployed person has more fresh air, exercise, rest and freedom from industrial risks and restrictions than fall to his lot when he is employed. Again, the community, as compared with pre-war years, has realised the health, and economic advantages of increased sobriety. Lastly, there is the ever-spreading practice of personal hygiene in dietary, clothing, exercise, cleanliness and an open air life, which is rendering an immeasurable profit in life and health to the population as a whole.

"It is submitted that all these are factors in the health defences of the State and they appear to be effective, indeed, with all their imperfections and incompleteness, they have been vindicated by recent experience, something of a bulwark and a security in time of special difficulty and danger. In a word, the State and the municipality have come to the aid both of the individual and the people—in health, in sickness, and in the risks of physical impairment."

# PART TWO

# THE BANKS AND THE DEPRESSION

# CHAPTER I

Ever since the depression started people have been looking for a scapegoat, and the most popular selection has been the banks. Let us recall the facts.

Consider what happened in the last extreme break in confidence in this country—which led to the election of 1931. We hear a great deal of the wickedness of bond holders and the evil toll levied by rentiers and the rest. But what the socialists and the anti-bankers have to explain is one very simple but forgotten fact: the trouble wasn't that people who enjoyed, or wished to enjoy, claims upon the taxpayer suddenly tried to get more than usual and embarrassed the state. It wasn't even that people were very much worried about the amount the Government owed them. What precipitated the crisis was that the Government was desperately trying to borrow *more*, to create *new* rentiers—to compel Tom, Dick and Harry who had money in the bank to be-

come, against their will, *new* creditors of the Government. The public was alarmed because they woke up to the fact that their bankers were having to lend ever more and more of their depositors' money to the Government, which was using the proceeds to pay for ever-increasing Government expenditure (including unemployment pay, and Government salaries).

A Government can carry on almost (but not quite) indefinitely with a huge wages bill if people pay for it in the taxes. Instead of Smith having an office boy he pays what would have been his wages to the Government as taxation and some Government department has an office boy instead. A Government can carry on for a very long time—a surprisingly long time—even if it has to borrow a great deal of the money from its citizens. For example, France has been doing it for years past. Instead of Jones building a new garage or becoming part-owner of a new factory by subscribing to its shares, he lends the money to the Government: who spend it on fiddlededee and raise the money to pay the interest on Jones' loan by taxing him. He hasn't built the garage, so he

pays the tax instead of paying the wages to a new chauffeur. All still goes fairly well. Sooner or later, of course, people really get the wind up and doubt the security of the money they have lent. Once that happens, of course, the game is up, for all want to sell Government securities and no one wants to buy—the stock markets crash and we have the sort of state of affairs that has almost destroyed society in the United States of America.

But long before that happens people won't willingly lend *new* money. There is nothing very surprising in that. There are lots of people we are quite prepared to lend a fiver, to whom we wouldn't like to lend £500. All this is very elementary, but the world is mainly suffering to-day from our doing elementary sums, but getting them wrong. If you "unbalance the budget," if you "have a big development loan," if you pour scorn on "economy" that means in plain English, in the circumstances of the last few years, that your Government is deliberately to put itself in the position of having to borrow from unwilling lenders. Does it really require any very subtle analysis to foretell roughly speaking what will happen

and has happened wherever it has been tried? Try it yourself on your friends and business connections and see! There will be a rapidly growing distrust of your business standing, even of your honesty. People will hold up delivery—they will press for awkward payments—they will refuse to enter into long contracts with you, your best employees will get unsettled and start looking round for steadier jobs, and so on. The whole rate of working of your business will slow up and grow disorganised (which is deflation) until finally you will finish up with the bailiffs in and the shutters up. Is it really the fault of the people who didn't want you to owe them money?

But now let us take the matter a step further. Governments are not the only people who want to borrow money—though they usually can borrow rather more and rather cheaper than other people, because it is a general belief that whatever happens to us all, the last person left alive will be the tax collector—whence comes our war loan interest. More than half the people of these islands, and of all other great industrial countries, earn their living not by making quickly consumable goods

but by making capital goods—factories and machinery and such like. And it is just in these trades and in these districts that unemployment is at its worst all over the world. Why? Largely because they are particularly dependent on the confidence of business men in their calculations and guesses about the future. Once again, there is nothing very mysterious about that; 10% gross profit is a fairly comfortable working margin—but that means you must do £100 worth of business to make up one bad debt of £10. A sinking fund of 1% will take a life-time to repay you your money if you have once decided to lock it up in bricks and mortar of a particular shape, adapted to some particular purpose. The more uncertain you are about your guesses, hopes, and calculations coming adrift while you are doing the £100 worth of business, or while the sinking fund is repaying you your savings, the longer you are liable to wait before finally taking the plunge. Once again the whole speed of your industry slows down. While you are making up your mind to risk it, the workers you might have been employing are lining up at the labour exchange.

Moreover, the more uncertain you are, the bigger margin of profit you must set out for in order to safeguard yourself, and that means the less business there is going. Lots of jobs turn up if you can quote "keen" which just get held up if everyone's price is high. Moreover, high taxation of profits tells the same way. If you make a loss you are allowed to pay all of it. If you make a profit, at least a quarter is taken away in Income Tax alone. So if a profit of 3% would have been just sufficient to make it worth your while, you have to wait till you can get 4% before you start.

Of course, the biggest risk of all is just sheer death and destruction—war and civil disturbance. Not all the monetary panaceas in the world, nor all the plans that ever came out of a brain trust can keep an industrial system going properly in the political conditions of the last twenty years. Once again, the evils we are suffering from are not in the least to be laid at the doors of defects in our economics—they would have had just the same effect in any society, however it was organised.

But there is another kind of danger to confidence, of more importance to us to-day because we have so far avoided it much more successfully than most countries, and yet many people advocate measures which will infallibly bring it about. They spend much of their time cursing the Government and the banks for not having adopted it as they have done in the United States of America—a country which ought to have been a much more secure one than ourselves, for they have no serious risks of war. Yet owing to their faulty proceedings they have fallen into a far worse fix than ourselves. These are the blows to confidence arising from the debauchery of the currency and banking system.

Apart from general abuse of Mr. Montagu Norman, there are four main abracadabras with which the money-mongers call their spirits from the vasty deep. First, "Down with gold," second, "Increase purchasing power," third, "Raise, and then stabilize prices," and lastly, "Use the idle money in the banks." It is not my purpose to deal at any length with any of them, as this is not a book on the theory of money. I only want to consider them as

part of the process of political interference in business and finance, and to state as simply as I can the reason why I don't think the world has benefited very much from Professor Keynes and Professor Warren and Sir Stafford Cripps and the others, each with their own pentagrams.

First, as to Gold. It is clear that the world never has had nor soon will have, one currency and banking system. It is further clear that two countries with different currencies but doing any trade (or even visiting one another occasionally) must have a market in which one currency can be exchanged for the other. So the foreign exchanges, like the poor, will be always with us and must be looked after somehow. We need not delay over any discussion of the working of the gold standard which had this as its object, nor with detailed proposals for its improvement. I think that most people will agree, in the light of the last twenty years as a whole, that we must either have some kind of gold standard to settle the rates of exchange or endeavour to do without any international standard at all. If the latter is impossible, then the first abracadabra must be abandoned.

I have already argued that the causes which broke down the old gold-standard system were no fault of its own and would have broken down any system, and practically all the criticisms of the gold standard are really criticisms of any international standard whatever. Secondly, whenever an effort has in fact been made to preserve or recreate exchange stability, it has always found itself forced back to some sort of linkage to gold, simply because this gives the only currency-medium which everyone seems ready to accept at *some* value in unlimited quantities and just when you want it, i.e. when people are upset and frightened.

Taking so much as given, it might still be practicable to abandon an international standard of any kind if we saw sufficient advantages in so doing, in spite of the fact that most of the evils we fly from, are nothing to do with the old system at all. Now what advantages do we seek in so doing? I think they may be summed up in the words: impatience for security. We feel that the problems of the world are not going to be solved unless we can limit the area over which we have to act—

if nothing can be done till everybody does it, nothing will ever be done.

The answers to this are various and to my mind conclusive. First of all you *can't* insulate yourself in this way effectively; secondly, the areas you must include in the currency area you are endeavouring to isolate, cover just as many difficult areas as the alternative—if you can do one you can do the other. There are other considerations but let us consider these together first.

It is obvious that for this country you can't deal with England alone. Everyone admits that there must be a "sterling bloc." But, even there, difficulties arise as long as you think exchange manipulation is a tolerable expedient. Australia did just as much harm to our farmers as anyone else would have done when she devalued 25% as against sterling. Again, most sane people admit that such vast depositories of our savings and fields for our industry as the Argentine and the Scandinavian countries must come in too. But it is frequently overlooked that, even taking the modern strange view of trade at its face value, you are just as much compelled to take in your enemies

as your friends. It is just as important, or more important, to get Japan into your bloc, as it is to include the market you are both competing for. It is just as important to get in the U.S.A. as it is to include the market you both want to invest in.

Yet further, the produce markets of the world are still largely international and if we are ever to recover they must become once again still more so.

On them in turn there rests the whole industrial structure and purchasing power of the largest part of the new countries and the borrowing countries on whom our capital export industries depend. You *cannot* therefore construct any sound currency or banking structure for a bloc which includes, say, Australia and Malaya unless Australian wool is linked up with Germany and Malayan rubber linked up with the U.S.A. motor industry. We are inevitably so big that we must be bigger. Our political frontiers may or may not stop at the Rhine. Our currency frontiers never have and never will. The one foreign import no one can keep out is depression. Just as a world war can start in a village in Bosnia, so a world

crisis can start in a set of potty little banks in Michigan or in an embarrassed firm in Vienna.

And all experience confirms that you will never be able to rest content with these separate cells, however well padded. It requires very little seepage from a faulty cess-pit to infect its neighbouring well, however pure. We have recently seen the U.S.A. produce chaos in yet another country—this time China—by the latest freak of its money-mongers in buying up silver to please their constituents.

But above all, depression itself is infectious—much more so than recovery. Now any currency that is absolutely selfish, unpredictable, and unrelated to anything except political exigencies and autocratic neurosis—in short, any Roosevelt currency—exports depression without producing recovery at home. So long as it operates in the gold and silver markets at all, it is obviously rigging the most vital commodity in the world for those countries whose currencies are related to those metals. It is intoxicating their quantity surveyor while they are engaged in a big building contract. Once it finds this insufficient, it can only operate by actually buying and selling other people's

currencies: which is just as if you had someone inflating or deflating your tyres on a motor tour just for his own purposes and without your knowledge.

As long as there is any intercourse there must be a foreign exchange market, and as long as there is any foreign exchange market you *cannot* arrange your own currency without affecting other people. If there is a system such as the Gold Standard which is a frankly impartial one, everyone has at least an equality before the law to which all must conform. To allow everyone to do as he liked *as if* he didn't affect other people, when in fact he does and must, simply leads and must lead to currency wars, exchange depreciation and all the apparatus of quotas, exchange restrictions, ever mounting tariffs, and so on. To sum up, you can't and don't insulate yourself in this way. All you do is to make it impossible to know what anyone else will do next, in the hope that you will be able to outwit them by superior skill and cunning. Does anyone believe and does any recent experience warrant, that trade will recover in these conditions?

But the case is further fortified by observing that the same is true even of the industries apparently less affected by the foreign trade and investment upon which depend all agriculture and all the industries where unemployment is severe, and upon whose expansion the future increase of prosperity by the increase of accumulated capital, depends. Why is this? Because the currency "blocs" theoretically required for insulation purposes don't run by political boundaries at all, they cut right across them. To put it crudely: you can't, beyond a certain point, have an inflationary policy going on in Middlesbrough and the Tata works in India and a deflationary policy in the agricultural areas of Lincolnshire and West Australia.

Now the inevitable result of disorganised, unrelated and uncertain currencies, is the existence of liquid capital rushing round the world for political and non-business reasons, while there grows up a complete paralysis of the long term capital market *except only* if a country does exactly those very unpleasant things (like strict budgetary reform and economies) which are the only things which

we are trying to avoid in cutting off our currency from the rest of the world. If you could escape them it might possibly be worth letting the exchanges and the currency go hay-wire, but you can't. There are theoretical reasons to justify this view but I think the state of the world to-day and its history since the war is sufficient proof for most people, that wherever a currency is allowed to come adrift, either the promised benefits don't accrue (see for instance the ever-increasing jam Roosevelt has been in) or they have to do the very things we had to do in '31. If you get a paralysis of the capital market and a short-term money market in a chronic state of dropsy owing to these floods of liquid money, what is the use of talking about improved or "managed" currency, with all the apparatus of index numbers and the rest? The boat simply doesn't answer the helm, waggle you the tiller never so wisely.

## CHAPTER II

Now let us devote a moment to the "increased purchasing power" cantrip. The argument is, that there isn't enough purchasing power to enable all the things produced to be bought, and therefore if we were all richer we should all be richer. Now there is, of course, a sense in which it is obviously true that a depression begins and continues because everything isn't bought at the price which has been asked. That is the definition of a slump, not an explanation of it. But is there *any* amount of purchasing power which in the last stages of a boom will buy all the things which are produced, at the prices which are asked? Obviously, no. That is the whole trouble. It really makes no difference to anyone if you double or halve everything they buy, sell, owe, and are owed (and it should hardly need a long course of economics or business to persuade anyone that everything that is bought is *ipso facto* sold and everything that is a debt is *ipso facto* someone

else's asset). A boom is only a boom because it becomes increasingly profitable to be able to sell something before other people can produce enough to bring the price down. If everyone had more money it wouldn't just buy all there was and then stop. It leads to *new* undertakings and to *new* speculation becoming highly profitable, until the actual products materialise and then in their turn they aren't profitable at all.

Looked at in another way, a boom isn't due to, nor is it mainly characterised by, people consuming more coffee or more bicycles; that does happen a little, just as the consumption falls off a little in the slump (but *very little*: as we have already seen, the total consuming capacity of the working people of this country has never varied all through the slump by as much as 10%). What does happen is that investment is disorganised. Once again we come down to the vital question of people's calculations about the future, as expressed in the use they are prepared to make of the girders, and bricks, and office equipment which are no use at all to eat, and whose only value is the present discounted value of your

guess of what they will earn over a lifetime. We have seen how, if confidence is shaken, these things and the industries which produce them, appear to be practically valueless. In the opposite case they appear to be worth much too much. Too much of the purchasing power there is, goes into buying the right to own them. Capital values, stocks and shares, soar. Too many people set out to satisfy a demand that will never materialise. There are too many shipyards and each is valued too high. The Emperor has no clothes and there are several emperors. Sooner or later there is an unseemly scramble for cover. In short, the fallacy of "increased purchasing power" is first, that prices in a boom are out of adjustment one with another (roughly, capital goods and consumption goods, as well, of course, as any number of particular maladjustments) so that *no* level of purchasing power can sustain them; and secondly, that the prices of things and the prices of rights are out of adjustment.

The situation may be put in the form that there is extra purchasing power but it doesn't in fact go into buying the raw coffee or the raw wheat or even the bicycles or wireless sets

that *are* produced, but into the stock exchange or the dog tracks. I.e. the calculations on which the whole thing rests turn out wrong. Broadly speaking the people don't want what is produced, but only the right to own the right to produce it, because that is profitable. And if profits are extra high, people will think it worth saving more, and will think it worth putting their savings into things which will never, and can never, be remunerative at the prices they assume as the basis of their calculations and guesses.

It is scarcely necessary to add in passing, that the easy conditions of a boom inevitably add to the theoretical troubles here indicated, other more sordid ones. It is in these conditions that the Hatrys and the Krugers flourish, as well as Government pools and all sorts of Government extravagance; and the inevitable discoveries of their frauds, and the inevitable price to be paid for their errors of judgment, add to the ultimate reckoning.

But it may be said, all this may be true but isn't it, partly at any rate, beside the point? Only the worst of the currency cranks (such as the Douglasites) believe that there is *always*

a shortage. It may therefore be right to say that as soon as a boom is about to develop, purchasing power should be cut down, rather than increased. But what about now? Why shouldn't purchasing power be increased now, in order to get out of the depression—let's think about the boom when we get there!

Well, the first thing to be said about that is a severely practical one: has any Central Bank, or currency authority which is politically managed or influenced, ever been able to persuade people that *now* is the time to put on the brake? It is like public-works borrowers: Always the time to borrow, never to repay. Always the sinking fund *next* year, the position is always "fundamentally sound," prosperity is always round the corner if we will only spend a little more money "to prime the pump," or whatever the catch word of the moment may be. Quite bluntly, no politically managed currency, nor even a currency largely dominated by supposed business interests, can ever stop a boom in time. And *no one*, this is the point, can stop a boom that's gone very far, without a serious depression which has to be worked

through very slowly. And that brings me to the second point.

If you *have* had a boom and *are* in a depression it *is* true that cheap and plentiful money is necessary (we have it now) but no power on earth can make it become an increase in purchasing power very quickly, for the simple reason that what is wrong isn't a shortage of currency or deposit credit (as I said just now we've got more than at any time before the depression started), what is wrong is that the use of it has slowed down.[1] And there are no ways of artificially speeding it up again that won't make matters worse, for the simple reason that people want to be sure they can start making guesses again about the probable present value of capital assets. Human nature being what it is, that takes first *time* and second an absence of arbitrary and unpredictable

[1] This is even broadly true of the U.S.A., although there the matter is complicated by the huge wiping-out of deposits which took place during the Bank crash. But from the last boom month—October, 1929,—to two years later at the bottom of the depression, deposits increased by about four hundred million dollars and ever since the Bank crisis they have been increasing again. But the falling off in the use people have been making of their money is on a totally different scale; it is less than a quarter in New York and only a half elsewhere.

factors. People, given a little time to get their breath in, and once they are sound again in their own positions, will take almost any *known* risk—at a price.

But completely unknown risks are hopeless. Now the whole essence of Government interference:—planning, currency manipulation, and so on, is that it is utterly unpredictable. If you've got to guess at which liar will successfully tell what lies at the next election, and what he will do about it afterwards, no one can make any rational judgment about the future. And once again that means that the value of income-earning assets is (*a*) very small, and (*b*) absolutely arbitrary, a gamble, not a business calculation. And that, in turn, means that no one will invest and therefore about half the employment-producing and wealth-producing capacity of every industrial nation in the world becomes just an expensive mistake—for our society is all founded upon the division of labour, so that some people produce for the future out of what other people set aside in the present. Once that breaks down, coal miners must start an allotment and eat the produce, and engineers must leave their

magnificently equipped mass-production factories and go to an occupational centre to make an odd chair for their own kitchen.

There is a further variation of the increased purchasing power catch-word, which requires a moment's analysis before we pass on. It is frequently said that capital has "solved the problem of production but not the problem of distribution." This tiresome parrot-cry arises from an elementary confusion between technically efficient production and economically efficient production. There is nothing odd in the fact that a lot of things are now within the bounds of physical possibility which can't be sold. It always was so and always will be. The poorest countries and the most primitive industrial structures, even those which do not depend upon a monetary economy of any kind, have usually been able to build pyramids and great works of all kinds, although the standard of living remained low. There is no technical difficulty now in covering England with pyramids just as Vienna was covered with elaborate workmen's flats. The point is that to divert the available resources of the country into these forms is an *economic*

mistake, however technically efficient the engineering job may be. Just in the same way, the over-developed iron and steel industry of the world after the war, or the gigantic electric undertakings of the Soviets, may or may not be technically very efficient but they are economically an error; somewhat in the same way, it is really an error to cook a week's dinners all at once, although it is mechanically more efficient to deal with large quantities at a time.

This becomes clearer if one observes that were Rolls Royces to be had for £100 and Fords for £5 you could at once get rid of the lot. It is only impossible to distribute them, if it be impossible, because you have miscalculated the number you can sell at the price which is necessary to justify that enormous collection of capital by which alone you produce them. The problem isn't therefore a problem of distribution; it is a problem of directing investment, and therefore the resulting production, into the economically desirable channels; instead of so distorting or ignoring the economic mechanism of price and rate of interest that business men mistake

what is economically justified with what is at any moment technically possible.

This point is so important if we are to understand what has been happening throughout the world since the war and is so fundamental a weakness of most of the proposals of the planners, that it is worth looking at it from another point of view. What is the purchasing power of a nation or an individual? Not money—this is particularly obvious when your money is paper. No one wants paper in itself, and indeed as soon as people think their purchasing power *is* money and nothing else, you get an Austrian inflation: because everyone tries to get rid of it. The real purchasing power of the world is the production of the world entering into exchange. Now granted that you could get rid of any number of Rolls Royces at £100 each, why don't you?

The reason can be seen in its clearest form when the labour, raw material. and provision of capital come from different countries. Suppose the United Kingdom lends capital to set up a factory in India for spinning raw cotton from the U.S.A. If there is a difficulty in distributing the finished article that means

that the total demands by the investor, the producer of the raw material, and the spinning workman are more than the consumer will pay. If you want to reduce this total, the Indian workman says he would rather go back to his village than work for so little; or the investor says he'd rather not have saved the money to build the factory at all, and in future will rather spend it on a holiday in France; or the grower of cotton says he would rather grow maize or some other crop, or hold up production altogether. There may be nothing technically wrong with the factory whatever. It may be the last word in invention, but it will be an economic mistake.

And—here is the point—unless you allow the price of money and of cotton and of wages, to make this fact clear to everybody, you will not avoid wasting your resources in preserving and even extending and multiplying the mistake: the mistake namely of investing in cotton in India when you ought to be building hotels in France for the tourists, or railways in the U.S.A. to carry the maize. You will be hypnotised by the mechanical efficiency of the factory into making matters worse. You will subsidize

it or give it excessive protection, and waste more and more of the world's wealth until you reach the position of so many derelict civilisations;—full of expensive monuments but with nothing to eat, a position not unlike Vienna and Russia of recent years.

As the delusion that there is *always*, and must always be, a shortage of monetary purchasing power owing to some defect in all our existing currency systems, is a very fashionable view among the wilder cranks,[1] it may be as well to point out that the very facts of changes in the general price level show that this *cannot* be true. There are times when there is not enough purchasing power to buy all that there is to sell at the prices asked for it, but there are also times when there is too much purchasing power. Otherwise the very existence of the trade cycle would be impossible. If prices are falling, that of course is only another way of saying that there isn't enough purchasing power (either not enough money

[1] The essential proposition of Major Douglas is this: he claims to have discovered that the manner of circulation of money in the present industrial system necessarily leads to less purchasing power being in the hands of consumers than is required to purchase the production which has been financed and put in hand.

or it isn't being used fast enough) to buy everything at the old prices. That isn't an explanation, it is the same thing in different words. But if prices are rising the opposite *must* be true. There is too much purchasing power to buy all that there is to sell, at the prices asked. Again this isn't an explanation: it is the same thing in different words. As a matter of fact, while there are, of course, exactly as many ups as downs, there isn't a steady fall as there should be if the Douglas theory were true. On the contrary, over the centuries there is a *rise* in the average level of prices, in spite of greatly increased production and population. If, therefore, there is a secular defect in our currency system it must be one that leads to a steady surplus of purchasing power and not a deficiency.

It only remains to add further, that as a matter of fact the universal characteristic of the final depths of a depression is that there is more money than usual. And the wizards can't get out of this difficulty by saying that the purchasing power is not in the right hands. Purchasing power is purchasing power whoever has it, even if you don't like him. This simple

act is often forgotten because we get muddled with the modern plague of index numbers, which are made up of particular *things*. Money, it can't too often be repeated, buys everything, not just raw materials or the things that enter into the cost of living index for working people.

Indeed it could be argued as follows, if one took these people on their own ground, and it would have a great amount of truth in it. If there is a shortage of purchasing power in the depression, and if you can get out of your troubles by printing notes or in any other way increasing monetary power, then it is not the labourer who ought to be given it, but the employer. For the prices of consumers' goods haven't fallen much nor yet their production (witness the pretty good employment in those industries), while it is the employer who gives the contracts for the things whose prices *have* fallen. But of course this shows the fallacy of the whole argument—for the employer can get the purchasing power *now* as soon as he wants it—the whole difficulty, as we have seen from another point of view already, is to make him want it.

There is just one last fantasy very current amongst those who are suffering from this form of melancholia about the currency system, namely, that in some odd way the machine did just manage to work fairly well as long as huge foreign loans could be indulged in for getting rid of the surplus but that the system must inevitably smash as soon as this comes to an end. But it should not require a great deal of thought to discover that if getting rid of things by foreign loans alone enabled the old system to survive in England, then the receipt of the things must for that very reason have brought the system crashing to the ground in all the Dominions and other borrowing countries. If parting with the goods makes things better here, then receiving the goods ought to have made things worse in the Dominions: for they were working exactly the same currency system as ourselves.

Of course, that is not to say that a bad loan will not get you into trouble. That is true whether it is a foreign loan or a loan at home. Nor is it to say that the best foreign loans will not get you into trouble if you will not allow the currency system to work or the international

trade to exist, without which the interest and sinking fund cannot be paid. But that is all quite another story and has nothing to do with any fundamental defect in the monetary system itself. For years before the War the most enormous sums were quite easily and successfully transferred from this country abroad, to everybody's advantage, simply because we wanted to lend and the other people wanted to borrow and the city of London was allowed to do the rest. And the fact that we are still earning an average of over 4% on over £3,000,000,000 of these savings shows that the city did the job pretty well. All through the War the reverse current took place, fantastic sums running to over a thousand million pounds were repaid to this country and, whatever our other troubles, the repayments caused no difficulty because we wanted to be repaid and the other countries, mainly the United States, for the most part wanted to repay us; while the form of the repayments, namely every kind of raw material and munition of war, was highly acceptable to us.

The facts do not bear out the strange belief that there is something peculiarly irreversible

about foreign lending and that the whole thing is a sort of trick without which the machine won't work, but which really means something quite different to what it purports to mean. It would take us too far afield to go into all these matters further and it is probably useless, for currency cranks are hydra-headed and not only grow three new heads for each one cut off, but do not, for obvious reasons, suffer any serious loss from the removal of the old ones.

# CHAPTER III

IN this chapter we turn first to the stabilization of prices, as the beatific vision on which the hungry sheep should set their eyes for comfort.

There is, of course, a fallacy behind the whole theory that the only or even the principal object of a currency authority should be to keep prices stable. This is most easily seen by asking: what prices? Commodities are only one of the things money will buy—money serves just as much to buy labour and to buy rights, i.e. wages and stocks and shares. It is by no means self-evident that the best thing in the public interest is to keep the first, rather than the other two, steady. And it is often impossible to keep all three steady at the same time. Indeed, most people left to themselves would say that it was better to let people have the wages and salaries they are accustomed to and let the things that they buy become cheaper; and as is so often the case, the ordinary

man in the street is more right than the too-clever-by-half economist is willing to admit.

Wages and salaries cannot move fast, for practical reasons with which everyone is acquainted, and the result is that if the circumstances are such that they should rise or fall if prices are to remain stable, they just don't do it fast enough, and trouble occurs. This is even more true of the buying of the rights to own and control the whole industrial system itself—the stock markets. They are the most sensitive of all markets. It is often the case that unless prices fall, the stock markets will blow up in a wild gambling mania. English banking practice has learned, partly by theory and partly by experience, that it is in the long run much better to cause some fall in prices rather than have a huge rise in security values. America a few years ago "went Keynes": commodity prices remained, and were kept deliberately extremely stable when they should have been falling, while wages and still more security values, went up like a rocket:—and both have come down like the stick.

There is a further special reason why trying to link a currency policy to an index number

of simple commodity prices is foredoomed to failure; these are just the prices which are most easily held up by borrowed money when they should fall. In many countries there is enormous political pressure to do it. For instance, whole areas of a state may be vitally concerned in the price of wheat or silver. As a matter of fact simple commodity prices nearly always should be falling in relation to other prices, owing to the fact that less and less of our time and energy need to be devoted to them. But the amount of borrowed money available, and the price you have to pay for it, is itself determined by the very same processes of central banking which help to control prices. So you are in a vicious circle—how vicious, the experience of the Federal Reserve system in America, and the various pools for "stabilizing" prices in the last ten years, will show.

It may be as well to remark in passing that it is entirely unproved that rising prices are the essential condition of recovery and continued prosperity. As a matter of fact in England in the eighteen months from the bottom of the depression in 1932 to the latest available date early in 1934, the general level

of prices of the National income has fallen some 5%, but the real total value of the National income has risen by about £300,000,000, some 8%. To sum up the matter, if you concentrate too exclusively on securing stable prices, you don't even achieve that aim, for the resulting distortions in investment lead to unmanageable booms and depressions which destroy your temporary stability as well as many much more important things.

There is a special point of very great importance with regard to losses which may be mentioned here. The world is a changing world, the richer we are and the more inventions we produce, the more rapid and numerous the changes must be. If we are to progress, we must be altering nearly everything nearly always. Very well. But not even the planners can foretell what the future will do exactly and no one else can even foretell what the planners will do. Under these circumstances there must be mistakes and that means losses. Now who is to bear these losses? Losses, be it observed, which are an essential element in the possibility of progress at all. To some extent, of course, everyone suffers a little, but

we are not concerned at the moment with the ultimate results. Who is to provide the necessary cash when the bills have to be paid?

The London money market has created the most varied and subtle machine for finding some one willing and able to take almost every conceivable sort of risk. The risk that the ordinary shareholder takes; the risk that the Underwriter takes, that no one will be willing to become an ordinary shareholder; the risk that you won't be paid your bill or that the money you are paid in won't be worth what it is to-day; or that the goods will never be delivered at all; and so on indefinitely. Like everything else in the real world, it isn't perfect. It is itself always changing and learning by mistakes. But it is *there*. It will work, not after the next committee but one has reported on the last Royal Commission but six, but now—instanter—on the telephone. Now one of the essential functions of such a machine is to digest losses, get rid of waste. An industrial system can no more work healthily and actively without getting rid of waste than a man can be healthy whose digestive system isn't functioning properly.

But this is the point. You can handle the average of losses that you have cautiously allowed for. It is sad to discover that large reserves, which you thought were a nest egg, have been required for making up capital losses; still sadder to discover a great deal of your ordinary shareholders' money gone, or even that you need a receiver to preserve the remains of their investments for the debenture holders. If things are worse still, you may have to let a big firm go under, which is very difficult and dangerous. But you can't put in a receiver for a great municipality. England nearly had to do it for West Ham. That is almost a political impossibility. What if the state itself overreaches itself? Every time the state guarantees loans or takes part in industry (except in the rare cases when it is an ordinary shareholder), you are increasing the number of things which may make losses and can't in practice admit them without frightful risk of destroying the confidence of everyone in everything. Mrs. Jones loses some of her money and it is very sad. If she is wise she hasn't got all her eggs in one basket, and probably at the worst her children and relations

can do something about it, but the state is a different matter.

There is another aspect of the same matter of great importance. More and more of the lending after the War, especially by the United States, was in the form of bonds rather than part-ownership of actual industrial undertakings. This was partly because the lending was so frequently to Governments and municipalities. And a foreign Government, and for that matter a private individual, can't very well become a shareholder in the city of Berlin or the state of Peru. But the dangers of shock are enormously greater if you actually get a *default* on a debt, and a default from a public body at that, than if you merely observed that a private firm isn't paying a dividend.

The conclusion of the matter is that here is one of the most dangerous elements in the post-war financial system—a danger inseparable from Government interference in industry and Government expenditure on a large scale, a danger which will become acute the more nearly we approach complete Government or municipal ownership. I refer to the danger arising from the fact that more and more of the

inevitable losses which are to be expected, can only arise in circumstances where they dare not be revealed, and they cannot be eliminated. Ultimately (as in the great Reparations and German borrowing examples) the whole structure collapses in a sort of earthquake, because everyone has had to pretend not to notice the cracks.

Finally let us examine a little, the "idle money" notion. It is fairly clear that if people for any reason only want, and get, 3% instead of 6% for waiting while they get their money back, any given source of income can be sold for twice as much as it could before the rate of interest fell.[1] The same applies to other things you can buy and sell, such as chances of an income in the future (and after all every new venture whether it be building a factory or buying a sweepstake ticket is essentially a chance of an income in the future), it is worth more if the rate of interest falls, for the rate of interest is only the pounds, shillings and pence way of saying "a bird in the hand is worth two (or 3, or 1½) in the bush." Sometimes

[1] i.e., if people ask and get 6% then the right to an income of £6 a year can be sold for £100. You can sell the same income for £200 if the rate of interest falls to 3%.

people feel this more than others. If their hands are full of birds already, they don't mind having a flutter in the neighbouring hedge. On the other hand, if they're up against it, they probably wring the chicken's neck and have dinner before the rats get at it. And that's all there is to say about the rate of interest.

Next, the actual risks being run may change, so that the value of given incomes becomes more or less uncertain, and with them the value of the stocks and shares and war loan certificates which represent your claim to them.

Very well—with so much of introduction look back at the last few years. Owing to the conversion loan and other things which we were discussing elsewhere, the rate of interest has nearly halved. Further, people's sense of shock at the crash has begun to wear off. In many parts of the world, specially here, the real risks have decreased, and finally while a huge new *buyer* of rights to income from the state and industry has come into the market to the tune of hundreds of millions of pounds (namely the Joint Stock Banks), at the same time

the biggest *seller* of those rights (the spendthrift Government who was always creating new claims on its purse in order to meet its deficits), has gone out of the market. For there has been no new Government borrowing for some time.

The net result of all this has been what everyone of the old women in Threadneedle Street told the bright young things at Westminster would happen: namely, a huge revival of capital values which has turned embarrassed people who thought they were ruined, and rocky firms who knew their bankers thought they were bust, into comparatively healthy and happy individuals, and firms who can start to make good the damage of the years of depression and the accumulated, and hitherto unfinished, salvage from the previous boom. But note: they are only starting. If a firm's reserves are now worth a lot more, that may mean it is no longer embarrassed by a loan it can't repay. It may, and often does, repay its bank a loan long "frozen," but its actual earning capacity is only very slowly, if at all, increased. It is "sound" again. If opportunity comes, it can raise the money to go after it,

but it has only turned the corner and not reached the goal.

The same with individuals. If you have saved all your life and you have found your savings melting away in value year after year, and now find them quickly return to their old figures, you are certainly much happier. You may consider all sorts of ventures you wouldn't have looked at a few years ago, but unless you are a fool you will not behave as if you were securely rich for good and all: for these new ventures remain ventures all the same. The proof of the new puddings still remains to be eaten, and they are only just going into the oven. The factory extensions, the new industrial processes, are only just being built or set to work. The point is that the vast change in the capital markets of the country since we returned to comparative sanity four years ago, isn't due to our suddenly discovering vast new supplies of savings wanting somewhere to go. We aren't so rich that we can't spend all our income and don't know what to do with the rest. It's simply that we have so arranged things that we haven't lost all the savings we already had. If we want to realize

some of them we can get a decent offer. But what counts from the point of view of employment is *new* savings and what happens to them, and as a matter of fact the value of new savings is not anything out of the ordinary, and it has, as I have just argued, little or nothing whatever to do with what has happened in the last few years.

Indeed, in the United States the latest calculations show that the income distributed has for several years been more than the income earned, i.e. the country has been living on its capital, even though it has reduced its standard of living. This is illustrated to some extent by the fact that the total of savings in the savings banks has decreased by 25% since its peak before the depression. In this country, owing to the fact that we avoided most of both boom and depression by superior banking, this is not true. Our savings (whether the small savings of the poor, or the total investments of the whole country) have continued at almost exactly the same level. Allowing for depreciation, we have been setting aside roughly £500,000,000 a year regularly for years for permanent capital investment—round about

ten to fifteen per cent. of our income. While it is common knowledge that the amount available for foreign investment is practically nil, we have been receiving by the action of sinking funds actually more than we have been remitting abroad; a striking and most disquieting change from the days when we were opening up new sources of real wealth all over the world, to the tune of hundreds of millions a year.

Indeed, it would only require quite a small demand for new Government accommodation to mop up all the new savings that's about.

There is a very important proviso to all this which has already been noticed in passing—the new man in the market. Why have the banks bought some hundreds of millions of securities from their owners and why shouldn't at any rate *that* new money be used for some Government "reconstruction loan"? As to the first, to cut a long story short, the banks have a certain amount of money belonging to their depositors to handle, the total being determined by the Bank of England. Not that the Bank of England can do just what they like, but we are not for the moment concerned with their worries. That amount of deposits was largely

increased after the purely financial crisis had been handled, and before the conversion loan. This has always happened before, after a financial crisis has been handled properly. The English banks have learned by theory and experience (and that's why they haven't gone the way of the American and German banks) that it is very unsafe to hold very much of their depositors' money in forms which can't be turned into a fixed amount of money at short notice. So they don't like buying investments, and there are very few investments they dare buy at all.

There is nothing very strange about that—we always think of a bank as a creditor, but the banks are, of course, the biggest debtors in the world. They are the only people in the world who have to open their doors every morning and be in a position, if they are called upon to do so by their depositors, to realize every penny they possess on demand and shut up shop that evening having paid 20*s.* in the pound. But the banks have been in a cleft stick, they have had more money to use and less things to use it in. You have actually the funny spectacle of one distinguished bank,

very wrongly as I venture to think, asking the Government to put its own debt into a dangerous short-term form in order to make it easier for the bank to lend money safely. They have had to buy investments, but they want to sell them as soon as they can. If they could get more short-term commercial paper, if there were more demand for advances to industry of the usual self-liquidating character—three months' bills for moving cotton, say, or overdrafts for new manufacturing orders—most of the banks would be glad to sell a large part of their investments again.

And that's just the point. An investment in the hands of a bank is in some ways like stocks of commodities in the hands of a "weak" holder. It is not where it really belongs: in the hands of the private holder who looks on it as a saving set aside out of income. Unfortunately, as I said just now, far from there being new demands for accommodation from the banks, most of the money the banks paid for these investments has been promptly used by the vendors to repay loans from the banks themselves. As I said once before, everyone is in a healthier and happier position, people

are solvent and owe one another less, but all this "idle money" that we hear about really isn't there at all, in the sense that most people use the words.

There are not vast sums of real savings waiting to be put into bricks and mortar. There are merely solvent people instead of insolvent people, and five banks who want someone to come along and borrow for three months for a trading deal. As soon as that happens they will sell some war loan, and as soon as they do that it is the vital duty of the Government to make sure that there are enough people really wanting to buy it. Otherwise you will get at one blow back again at the beginning of the trouble—falling security prices—rising interest rates—fear, embarrassment, delay, unemployment. It is evident that the best way for the Government to make sure that there are enough people wanting to buy the securities the banks want to sell is (*a*) to leave people's money in their pockets to do the buying, instead of taxing it away from them, and (*b*) not to be in the market themselves, trying to sell new Government paper (i.e. being bold, imaginative, and impecunious), but on the

contrary to be in the market as a buyer, i.e. immediately to restore the sinking fund out of a budget surplus. And that presupposes having a budget surplus out of which to do it, a surplus to be achieved not by extra taxes but by reduced Government expenditure.

There is one other point to be considered before leaving this part of our subject. It may be said, even if the Government cannot do as much as the revivalists would like, obviously there are *some* new savings about, there is *some* new investment to be done, otherwise the conclusion would be that we had reached a completely stable society once and for all: which no one really believes. So why shouldn't the Government do it? It might do it a bit better, and above all a bit faster. Now here obviously we leave the ground of general argument—yes or no—and have to rely on a balance of considerations. I will only suggest this: what exactly is the Government to start on? No one pretends that he can foresee the ways in which industry will, of its own, develop. That is the whole point of private enterprise: it knows what it doesn't know, unlike Governments. It leaves it to the averaging out of

millions of different free decisions on the part of the consumer. In other words, the new wood will grow round the old tree:—here a firm will expand, there a growing want will be supplied.

But the Government can't in practice behave like that. It must tackle one of a very few more or less routine, cut and dried, schemes. We want some more telephones (and are getting them), we might have a few more roads, but where? There seem too many and certainly too wide and dangerous already. Most of the big industries are just those where contraction rather than their sudden expansion is required. The difficulty with cotton and coal and the railways, and even with wool and iron and steel, is rather to reduce their scale. Certainly no vast influx of new capital is to be desired. It is in the "odds and ends" of industry, in commerce and distribution that the developments are taking place. It simply isn't practicable for the Government to handle them from the point of view of usefully investing large sums of money in them.

There remains one special case—the case of Housing. Now the first things to be said about

Housing in this connection are these: whatever may be true elsewhere, here is not a case where any "idle money" in the hands of the banks must be employed. If there is one kind of security which a depositor should apply to the courts to restrain his banks from touching it is this. The obvious reason is that it is not only a very long-term investment but one which is peculiarly unsaleable just when you want it in a hurry, and this most of all where working class housing is concerned, because (for obvious political and humane reasons) you can't even get possession, let alone find a purchaser, at a moment's notice. The country mustn't put a farthing into housing which isn't real saving set aside for a lifetime. Money may be technically very easy to-day in Lombard Street, but if any of it is foreign "funk" money, any of it is firms' money waiting use in their own business, any of it still gold exchange standard or our own exchange equalization account money, it mustn't—this is a really deadly peril to our financial stability—go into bricks and mortar.

And the second thing is, that if there be any ground anywhere for believing that lack of willingness to lend is holding up recovery and

progress, it certainly isn't here. For a large part of what real savings there are (especially poor people's savings) is pouring into the Building Societies so that until their financial position is totally different from what it is to-day, there is no need for the Government to run any risks in order to put grandiose sums at the disposal of the industry. Provided the sum is reasonably modest (and yet quite sufficient) it can be done by the existing machinery.

But it may be said, this is all very well, we grant that there is money for building and that it is being used for building as fast as you like (and no one could well deny that who looks around him) still, it isn't being used to the best social, as distinct from economic, advantage. A lot of people are now getting houses at no cost to the taxpayer on an economic basis, giving a fair return to the investor and employing thousands of men, but are they the houses that are most needed? Now here we leave the ground of economics and enter the field of legitimate charity. But before doing so, I want to point the moral: economy, conversion loan, cheap money, lower (not higher) prices, less

or no subsidy needed, cheap houses, more employment. This is the particular case of the whole doctrine of this book. It is the whole case of the wicked bankers and hide-bound treasury officials who blew up the opposite theory (bold spending, big loans, increased spending power, etc.), three years ago. Which has delivered the goods?[1]

To proceed, therefore, we are not now answering the man who says he can cure unemployment by public works, or who attacks economy. He has answered himself. We are simply at the old, much smaller, but of course very important question of social reform. Here, it seems to me, the more orthodox we are in our finance, the more careful we must be not to make it carry unnecessary burdens. The question of slum-clearance, and even of better housing for those not in slums but still badly overcrowded, is not to be confused with the great economic issues we are discussing in this book. It is a question of organised charity just as much as, say, the Gresford Colliery fund.

[1] Although building costs have been rapidly falling, the total value of British approved building plans averaged about £72 million in '28–'30, rose to £83 million in 1933, and to well over £90 in 1934.

Even in the midst of the depression, few firms and few individuals gave up all contributions to hospitals and charitable institutions—as anyone who has had to be responsible for one of them knows with gratitude. The same is true of the state. It is not a question of economic principles, it is a question of scale.

The slums are a definite, limited, but horrible, national scandal. Even the overcrowding of quite decent housing is a grave evil. At a time when some remission of burdens is taking place, at a time when at any rate some resources can probably now be safely withdrawn from the capital market for state purposes, it is perfectly proper to support a policy of slum clearance always provided (*a*) that it isn't so confused with false economic doctrine that it is made the excuse for large expenditure of quite a different character, nor that we imagine it will have effects on employment and national recovery which it will not do in the least and (*b*) that its scale is rigidly confined to such a figure that it will not seriously interfere with the major problem of industrial recovery, to which so far from being a help it is bluntly probably a hindrance. If you are not charitable

enough you will come to grief in the next world. But if you are more charitable than you can afford, you will come to grief long before that, and need charity yourself. And to what country in the world would we like to have to turn, if we got ourselves into difficulties just now?

# Part Three

# PLANNING THE NEW JERUSALEM

## CHAPTER I

WHILE no one pretends that the existing system is perfect, we have found little reason to agree with those who condemn it root and branch. Are they any happier in their alternative proposals?

Few confusions of thought are more pathetic than the surprise which so many socialists, currency mongers, and quotarians seem to feel in the apparent contradiction between the glut of all products with which they are obsessed, and universal bankruptcy at the same time. I have already suggested that most of the glut exists only in their own imagination or as a direct result of their interference with supply and demand (just as much of the financial trouble of the world, including nearly all the banking and budgetary trouble, exists only because they won't let people go broke who are broke). But allowing for that, the fact remains that we are better off, we could be better off still, and yet many of us are in

financial messes—governments and people together. But why be surprised? Look around one at the real world as it exists—it isn't the poor and the embarrassed who get into the really big jams. It's people who are rich (especially newly rich), who are trying to behave as if they were even richer than they are. And that is what nearly the whole world has been up to, ever since munition wages and excess profits and thousand-million-pound budgets upset everyone's balance and balance sheets.

Two people are in the habit of exchanging raw rubber for raw coal. If you fix a fancy price for rubber, the coal people can't and won't buy it. A lot of rubber will be produced and a little will be sold. If you fix a fancy price for coal, the rubber people can't and won't buy it. A lot of coal will be produced and little will be sold. There is a glut of both of them, and there always will be, until either you allow the market to find the real prices at which people only produce what they are willing to produce, at a price people are willing to pay, or alternatively until you scrap the entire individualist industrial system and

set up some form of industrial conscription, with compulsory quotas, prosecutions for excess output, state purchase of the mines they have put out of action, state control of new investment to stop new people upsetting your artificial pack of cards, and so on from step to step, until you finish up with Sir Stafford Elliot managing everybody's business for them from Whitehall: and "that's planning that will be."

But how short are people's memories! It should not need a theoretical economist to prove that once you forbid sellers and purchasers to settle in the market place what they will buy and sell, and how much, and at what price, then you must settle it in the only alternative way: by ration cards and standard suits and priority lists. We discovered that recently by practical experience in the War. And there we touch the heart of the whole problem.

No one denies that in a completely crazy world (for instance during the War) strange and unpleasant devices may become inevitable. The socialists don't mind perpetuating them, because they believe all the world is always at war: the class war. But some of us want a

little peace in our time. We want peace because we want liberty. We will put up with horrible nuisances and restrictions, if we are sure they are temporary and unavoidable. But for Mr. Elliott and Sir Stafford Cripps they aren't temporary, and they aren't horrible. They "have come to stay." They are the latest revelation of economic progress and wisdom. We could endure Mr. Elliott if he wasn't so obviously enjoying himself. If you see a man tying up a fellow or an industry in wooden splints and bandages, you are liable to get a bit anxious if he keeps up a cheery scotch monologue all the time, about how much better it will be when everyone else is tied up in boards of some sort.

What exactly is the principal reason why exceptional devices became necessary during the War and during the great depression? I think most of them can be summed up as problems of discontinuity. Consider a motor car. Given a good road, a good car can take you quite comfortably over an alpine pass running up to thousands of feet, but let it be running down a street and mount a six inch kerb and there will probably be an accident.

That is roughly what has happened over and over again in the last twenty years.

It simply isn't true that "private enterprise," "capitalism," whatever you like to call it, cannot and has not lifted the world out of poverty into comparative affluence; out of a world where one's economic horizon was limited almost by the next village, and by the next harvest, into a civilisation where all the ends of the earth can do business on the telephone; where meat and ever new and more delicate fruits of the earth, and ever new inventions for our comfort, can be transported round the world and stored for the consumption of an ever larger percentage of the world's people. I don't say you never had to change gear, or even that the car never needed new tyres or plugs, but the century or so of touring did get us (all of us, not some of us) over the pass into a pleasanter and happier land than we had ever known.

But how was it done? Mainly by clearing fallen logs out of the way of the car. But nowadays half of the world is busy throwing bricks at the driver and the other half is building toll-gates at every corner. As to the

toll-gates, it is unnecessary to describe the ever-increasing and deliberate hindrances to trade all over the world. Their primary mischief is that they are causes of discontinuity. A factory, say, has been specially designed to make something which has been sold in France. Overnight that market is cut off by some politician, here or abroad. A definite piece of the real wealth of this country just becomes valueless. Business goodwill, useful experience of workmen, all simply vanish, just as much as if someone had dropped a bomb on the works. If it was merely a gradual, natural, change in the Frenchman's desire for our goods, or in our ability to supply it better than anyone else, everyone concerned would gradually adjust themselves. They would change gear, or the A.A. would find them an alternative route. But they have hit the kerb, or rather the kerb has got up and hit them, and there has been an accident. And nothing that you can still call a car is left; as anyone who looks at our great exporting, industrial districts can see for himself.

However, supply and demand are too old-fashioned to be either exciting or true, so

instead of trying the dull work of removing the obstacles to their resumed operation, we have had ever since the War a series of catchwords held out to us as the secret of success and moral progress. A year or two ago "rationalization" was all the rage. Not long elapsed before most of these grandiose, top-heavy mastodons were in the bankruptcy court or living off the taxes, and the courts gave their founders an average of about five years apiece.

Now we are all "Planners." The worshippers of the great new God "Planning" propose to make the New Jerusalem in periods varying from five years (in Russia) down to about half nothing in the case of the English Socialist League. They are a strange crew, ranging from cabinet ministers of the present Government, to leading lights of the other socialist front bench.

Now what exactly does Sir Stafford Elliott mean by planning? Why does he want to plan? Just because he has a tidy mind? No one who has heard the Minister of Agriculture's financial statements will believe that. What then is the test of a successful plan? He fortifies his case with two refrains: first, our

time is a world of glut (we have already had something to say about that), secondly, he descants on the "chaos of unregulated competition."

What does he mean by chaos? As long as wages and salaries are paid in money, and not in ration cards; as long as people's dresses are chosen according to their changing fancy, and not by the edicts as to uniform of red or black armies; as long as no one can tell in December whether people will want to spend their spare money on beer and cycles because it is a hot summer, or on mackintoshes and cinema tickets because it is wet; so long in fact as the English climate and the English people are free, wayward and delightful: so long will there be what Mr. Elliott is pleased to call chaos. In other words, there will be rapid and difficult changes in supply and demand, leading to many losses both to labour and to capital, but on the whole, to people getting as much of what they want as they can pay for out of their earnings. Which, in turn, are simply all the things that people are willing to give up to one another in return for something else. In words of two syllables that is the

old-fashioned economics which, like the multiplication table and book-keeping by double-entry, we have now "outgrown" because the truth isn't as much fun as fairy tales.

As for "unregulated" competition, how about the chaos of "regulated" competition? By edict over night the whole wool industry of England can be disorganised to-day because Germany is "out of the market." That is because Dr. Schacht has been planning Germany. By edict over night Mr. Elliott can abolish our bacon or our eggs or anything else that he thinks a committee thought of.

There are, for example, in Denmark two of the most up-to-date bacon factories in the world, British owned and working exclusively for the British market, practically put out of action by the Bacon Scheme while their owners are not even allowed to build substitutes in England. That is planning.

When a young orator is at a loss for a peroration or an excuse for raiding the taxpayer's pocket, he has only to point to the idle mines of Wales or the idle shipyards of Jarrow. But that is not due to "unregulated" competition. It is planning that has finally ruined Jarrow;

finally setting the seal of irrevocable closure upon firms ruined by the economic nationalism of the people who are planning industry in all countries on lines of self-sufficient poverty. It may or may not be good that shipyards should be forbidden by law or contract to build ships, it may or may not be good that coal mines should be forbidden to produce coal, farmers threatened with heavy fines for selling cheap milk. We are at the moment doing all these things, and that is what planning means in practice. The failures and shortcomings of the old system are obvious, but the troubles *we* are suffering from are not *their* troubles. There were low wages and grimy streets in Jarrow before the War, but firms were not shut up compulsorily and forbidden to pay wages at all: which is planning.

It simply isn't true that the interference of Government has increased the stability of business, and so reduced unemployment. In the old days, when business was business and politics was as little as possible, changes there were, as changes there will always be. But they took place slowly, as the pressure of supply and demand first urged and finally forced people

to make what people wanted and were prepared to pay for. Nowadays you have to make (*a*) something that a politician tells you to make, (*b*) something that he tells someone else to lend the money for, because no one is prepared to pay for it himself. Sooner or later he can't borrow any more and the pool goes bust and the market with it, or else he gets the sack or a new brainwave or makes a bargain with some other nuisance in another country; and you have to alter all your plans at a moment's notice in the intervals of being told how badly you manage your job, and how well he will manage it for you if you don't do what he tells you to-day (which is always the opposite of what he told you yesterday).

In support of this, here are a few instances: during the War the United States of America guaranteed two and a half dollars a bushel for wheat which is now about one-fifth to two-fifths of that price, the Federal Farm Board and the Canadian Wheat Pool being left with huge stocks carried on borrowed money until the drought came to their assistance! The latter at one time had some eighty million bushels. The Brazilian Coffee Institute

borrowed enough American money to buy up four times the normal stocks of coffee. Prices fell 30% in three months when it couldn't go any further. The Stevenson Scheme took rubber to about five times any reasonable price and stocks accumulated at the rate of 50,000 tons a year till the rising tide of production, brought about by the fancy prices, broke their scheme. Copper managed to make a ring controlling 90% of the production, and it went the way of all the others.

Now let us examine a little more in detail the ideas behind the proposals of the "planners." Of course, in some senses everyone in charge of a business is a planner from morning to night—if he didn't plan he would soon cease to be in charge of a business. The point is, to what end is business planned, how does it achieve that end, and who is doing it?

Most people spend a large part of their life deciding whether to have mutton or beef for dinner, a Ford or a Chrysler to drive in, whether to buy a ticket on the Underground and go to hear a Beethoven Sonata at the Queen's Hall or to buy a P. G. Wodehouse novel and

use a little extra electric light while reading it at home. Somehow or other all these millions upon millions of individual economic decisions, which are a necessary condition, nay the very meaning of living a reasonably free life, have to be weighed one against the other. And their average result has to be allowed for, sufficiently accurately for it to be possible to satisfy them. Unless, therefore, Mr. C. B. Cochran and Messrs. Lyons, and General Motors and W. H. Smith, know their job and have some means of *being told what the consumer wants*, it can't be done. This is what prices are for.

Very well, either your planner will produce the same quantities as the forces of supply and demand, or he will produce different quantities. If the first, how are we any better off? If different, he must either produce more and there is a glut of meat because people have decided they get better value for their money by eating fish, or he will produce less and there will be one of those chronic shortages which every housewife remembers in the War, after prices were fixed and before everyone was rationed.

The same is true of the price of money. The rate of interest determines whether it is worth while to build an expensive building to last fifty years for your factory and save on repairs, or whether it is better to have a temporary structure and alter it often. Either the planner of investment will invest our money in things earning the same return as at present, or in different things; and if the latter, he must either put our savings into things which won't earn our interest and there will be a deficit, or on the contrary he will only allow us to invest in a few things which earn large dividends and the rest will remain idle deposits at the banks. And then he will have brought his abhorred deflation on himself by his own action.

But, it may be said, granted that the claims of the planner have been exaggerated, granted that he cannot hope by his organisation to do anything fundamentally different or better than the play of the markets does at present, still may he not achieve the same end better than they do?

Here we must leave the serene air of reason and return to Mr. Elliott. It might be, in

another and a better world, that producers would get together and reorganise their affairs, alter their pet habits, forget their pet antipathies and business rivalries, all for pure public spirit and just to be Queen of the May. But in real life it is not so, but far otherwise. Does anyone really believe that the farmers are embracing all these boards and schemes and quotas in order to "equalise saving and investment," or to "improve the social distribution of our resources," or to make some small and hypothetical improvement in our marketing and price system? Of course not! Then why are they doing it? For money! They've got their hands in the taxpayer's till. Sugar beet isn't a crop, it's a charitable endowment. All the marketing schemes are, in practice, a kind of tontine endowed by the state for the purpose of stopping production. We put up the money and the last producers still allowed to produce, get the prize. It's doubtful whether one single marketing scheme, one single piece of planning, in this real world has done anything substantial to improve anything in the agricultural industry except the bank balances of the farmers and at our expense.

One of the difficulties of these days is that the things Governments do are so fantastic that no one believes in you when you describe them. The last sentence isn't a joke, it is literally true. In the hops scheme, for instance, all the lucky people who had been chosen by Mr. Elliott to have the exclusive right by law to grow hops, can put up to auction the granting of the right to anyone else to join their ring. And the law directs them to divide the blackmail which he has to pay, secretly among themselves!

And while we are talking about hops, admire the superior morals of the new planner's economy over the old and wicked past. The Minister (or rather the bureaucrats of his department) wanted this system of individual quotas, i.e. giving particular people for no special reason, except that they happened to be there on a particular day, the sole legal right to produce something. There was a furious outcry, so they set up an enquiry. Lord Selborne practically admitted in the House of Lords that the enquiry turned down the proposal. So they refused to publish the report and have refused ever since, nor would

they take any action. They waited a year, and then they set up another Committee—in other words they didn't like the verdict so they changed the Judge. They could not get agreement even on this Committee except by a series of shuffles, by bullying the brewers and by attempts on the part of the hop monopolists to hush up their objections, so that the pretence could be made that the scheme was agreed. This pretence actually was made by an eminent hop grower in the House of Commons when the scheme was going through Parliament, until the facts were exposed.

Now we live in days of mass electorates, one half of whom—the women—are essentially "consumer minded" and the other half, even when they think of themselves as producers, are essentially, at the best, rivals and critics of the employers and managers who are to compose these "self-governing" boards in industry. Does anyone really believe that these crazy edifices will long be left in the control of business men actuated by business motives? Why, they are only just tolerated by the employers themselves, as a means of crushing

competition and obtaining public money to do it with, and they are hated by everyone else—except by the only other people who hope to get control of them: the socialists.

The subsidies will probably go—the restrictions and the Committees will remain. For a time the agriculturist may live in a fool's paradise, thinking he has discovered a new way of taxing the towns without their knowledge. He is deceiving himself. When he has finished the tiresome work of building his own strait-waistcoat it will no longer be worth while bribing him to wear it. Nor is it only the avowed socialist that the employer has to fear. Let him look around the world to-day, wherever the state is "planning" industry. Is there so very much to choose between Dr. Schacht and M. Stalin in their methods of handling industry?

Dr. Schacht bears all the marks of a determined planner: he wants industries set up which are uneconomic, and he intends to make the country pay for it. He has just compelled by law, greatly against their will, ten of the largest undertakings in the heavy industry in Germany to put up sums eventually amounting

to the best part of £20,000,000 at their shareholders' sole risk to make oil out of coal. This, be it noticed, at a time when people are being sent to jail in the United States for selling oil which practically bubbles up out of the ground for almost nothing. The shareholders, who run all the risk, will have practically no control, as he has appointed a commissioner who has dictatorial powers over-riding both the directors, and even the shareholders in general meeting. It is not a good thing that arbitrary power in these matters should be placed in the hands of any minister, of whatever political or economic persuasion.

But, it may be said, has not capitalism brought this on itself? Even if it be true to argue that the great depression itself was not due to any inherent defect in the industrial system, surely the decay of the small business and the rise of the huge combine is a natural process too widespread and too long-standing to be explained away. And once your free competition and the free market is gone, your whole case is untenable. Some alternative *must* be found however difficult it may be.

There is, I think, some truth in this contention, but not very much. We must not confuse large scale operation with monopoly control of the market. The power of trusts and rings to control prices is usually exaggerated, except (and this is the vital point) where Governments come to their aid either by cutting off possible competitors (e.g. the foreign supplier, or the new firm starting business in competition because he sees profits are high), or by going out of their way to create them and give them legal powers. All this modern "corporate state," "self-government in industry," "the new deal" and the rest, is simply being governed by trusts, for the benefit of trusts. And there are only two things to be done with a trust—either to dissolve it or to nationalise it.

Now the facts of industry are on the whole reassuring. Wherever a trust or cartel is prevented by law from criminal practices to prevent competition; wherever it is possible for consumers to get alternative supplies; and wherever it doesn't happen to be very efficiently and moderately run, so as to make its advantages outweigh its disadvantages, it always breaks

down. When prices are rising very fast the trust has a great time, but then everyone in business has a great time when prices are rising very fast. But when prices are falling, the more the trust has banked on keeping them up, the bigger crash there is in store for it. And if the financial authorities prevent the big fluctuations from occurring at all, there is much less control by monopolies than is often supposed.

But we can admit at once that there are some places where, either there is an effective monopoly or there ought to be, and there the case must be considered on its merits. If there is abuse, or great savings can be made, then some sort of public utility or chartered company may be called for. But the cases are rare and not in the least typical.

I will quote in support of this view the findings of a Commission, which were presented to both Houses of Parliament by the Governor-General of South Africa a little while ago. The Commission heard a great deal of evidence, and their experience and conclusions are in some ways almost uncannily relevant to our problem. They say:

"The Commission is of opinion that a price-controlling body composed solely of producers, is, due to its inherent weakness of representing the supply factor only, not fundamentally equipped to exercise that essential restraining influence in regard to price policy. Bearing in mind the human element it is hardly conceivable that any body of producers of any agricultural product, having full control, will bring themselves to fix a price which is not higher than that which would have ruled had the ordinary forces of supply and demand been allowed free play. Otherwise why fix prices? The very factor which makes for strength in a co-operative concern, viz., democratic control, equal say in the affairs of the association, is a source of weakness to such organisation as a price-fixing machine."

They go on to say:

"Placing the control of an industry in the hands of producers by legislative enactment virtually amounts to conferring the power of taxation of the consuming public on a small body of producers' representatives, who are, generally speaking, constitutionally unfit to

exercise such power in the best interests of both producer and consumer.

"In view of the considerations advanced in this and the previous chapter regarding the harmful effects of control measures and price fixation and the disastrous experience of other countries with control legislation of this nature, the Commission finds itself unable to support the principle of sale through one channel by means of boards of control. The Commission is of opinion that the competitive marketing system, although in its application in South Africa not free from undesirable features, has proved itself capable of fulfilling the functions of marketing efficiently, and the Commission feels that, assisted and strengthened by co-operative marketing organisations of producers, the system holds promise of even greater efficiency in the future. The competitive system automatically adjusts supply and demand and by means of price acts as a healthy and essential check on production and supply. The introduction of an artificial system of price control which is intended by producers to maintain prices at an artificially 'fixed' level must necessarily eliminate this essential

check on supply and lead to maladjustment and ultimate collapse of prices. The granting of arbitrary price fixation powers and complete control over an industry to a statutory board of control, whether composed of producers or of impartial individuals, runs counter to our traditions, the philosophy of our Government, the spirit of our institutions, and all principles of equity, and the Commission considers that it is an economic experiment from which this country has every right to be spared."

Is it surprising, therefore, that their conclusion was:

"Compulsory co-operation and sales through one channel"—this is practically their name for a marketing board—"with the object of fixing and controlling prices of agricultural products should not be sanctioned by legislation and the existing provisions in the Co-operative Societies Act in this respect should be repealed."

That is the experience of one of our own Dominions.

The summing up of the late Chief of the Food Products Section of Mr. Roosevelt's A.A.A. could not be bettered, either as a description of American codes or of the English

marketing boards. "Examine a code carefully and you find, open or hidden, somebody's scheme to set up a monopoly, or at least to limit production, fix prices, guarantee profits, and, worse in many cases—the joker that would put somebody out of business or keep somebody in business who ought to be put out, which would keep the new man from getting into the game, and perhaps a new idea from being adopted. In other words, *freeze the business as it is, for the people now in it.*"

I will leave the reader to judge how far this is also a fair description of English "planning" if he will read the following extraordinary proceedings before the Committee of Enquiry into Mr. Elliott's Sugar Marketing Scheme.

A gentleman appeared vehemently opposing the whole Scheme, and arguing that it was contrary to law and inequitable. The promoters asked him if he would go and negotiate with them. They turned up together two days later with an alteration of the date upon which the quotas were to be assigned, thus bringing this gentleman inside the ring. He promptly thereupon withdrew all his opposition and said

that he did not propose to object further, to use his own words—"There is no alteration of any other kind in the Scheme." In other words, as soon as he got inside the ring the high moral objections he felt towards it immediately disappeared. The more watertight it was the better. Hardly had he been disposed of, however, when some more gentlemen turned up who wanted to get inside. Up to date they have not been accommodated.

Another witness completely let the cat out of the bag as far as his application to come into the Scheme was concerned, as the following dialogue will show:

*Q* (On behalf of the promoters—those already within the ring): "Do you really want to make white sugar?"

*A* : "Yes, because that Scheme protects me first of all against the killing and drowning competition which you have mentioned and then gives me an advantage because of the quota."

*Q* : "I see. Now I think the cat is out of the bag. You are perfectly contented with the Scheme provided the Sussex Sugar Company comes in."

*A* : "Certainly I am, and I would not like a factory without the Scheme."

*Q* : "If the Sussex Company came into the Scheme the rest would be quite all right, would it?"

*A* : "Yes."

*Q* : "Not a bad Scheme?"

*A* : "No."

A little later on:

*Q* : "You know that the Government aid to sugar beet production in this country amounts to £42,000,000?"

*A* : "Yes."

*Q* : "And you do not see any prospect of the Chichester factory being able to pay unless a similar rate of help is forthcoming?"

*A* : "Yes."

*Q* : "And you want to get your factory, I am not objecting to it, into the Scheme?"

*A* : "Yes."

*Q* : "So that farmers and growers of Sussex may share in the plunder of the taxpayer?"

*A* : "Yes."

The following is also instructive:

*Q* : "Going back to the voluntary scheme, do I understand you to say that the question of the position of new factories under that scheme has been considered and it has been decided that if new factories came into existence they would not be given an assigned quota?"

*A* : "That has been decided." (Note that these gentry have decided all this before their Scheme ever actually comes into force as law at all.)

*Q* : "You would desire to do what you could so that your Scheme would not injure the farmers of Sussex?"

*A* : "We should do all we could to avoid injury to the farmers of Sussex but I am afraid we could not give them a white sugar quota."

One of the leading British manufacturers using sugar, made the same point:

"I do not know what he" (the witness for the ring) "meant by that, but if he meant greater protection for the manufacturers, let me tell you, sir, that we would rather prefer our freedom to erect our own refineries and make our own sugar and buy it as we like, than any protection that the Agricultural Marketing Acts could give us." "Amongst all the controversy which has taken place during these last five or six days one point stands clear, that is this proposal to shut out new entrants . . . may I point out this, that if this principle is extended generally it would mean that men of the calibre of Sir William Morris would be condemned to work for existing vested capitalistic interests and on such terms as they proposed. . . . Men of that calibre would be told: 'there is no room for you'."

As to the probable results of this frozen monopoly, the following interchange between the Commissioner and the only witness for the ring is enlightening:

*The Commissioner :* "In arranging this quota, the twenty-two firms never took into consultation the people who use the stuff—I mean great customers like those whom we have in this room, the Wholesale Society, or the Grocers' Federation,—they arranged these figures off their own bat?"

*A :* "They did, because they regarded it as a domestic matter."

Further light is thrown on the mentality of the proposed trust by the following question on behalf of the promoters:

*Q :* "Do you think it fair that an entirely new body of refiners should come into the market when it has been stabilised by people who have been very many years in the business and who have been working up the business for years? Do you think it fair that a new producer should come in and take advantage of that and walk off with some of the quotas? Do you think that is fair?"

*A :* "We do not want to walk off with any quotas, but we certainly think we have as good a right to enter the industry as those who have entered it within quite recent years."

In view of the facts we shall give later on, as to the proceedings of the gentlemen who have entered the business recently, most fair-minded people will, I think, agree with the witness!

The ring asked the following questions of other representatives who appeared on behalf of manufacturers who use more sugar than the whole of the output of all the beet sugar factories in the Kingdom put together:

*Q :* "You want something for nothing?"

*A :* "No, we do not want something for nothing. We want the sort of sugar we have been accustomed to use. We want it not in limited supplies; we want to have it, if our business expands, in expanding quantities, and we want to have it when we want it."

*Q :* "Have you any reason whatever for saying or suggesting that, under this Scheme, these factors will not operate?"

*A :* "Yes."

*Q :* "What are your reasons?"

*A :* "This is going to be a close monopoly of people who have not in the same way the interests of the consumers at heart. There is no competition among them; they have a fixed quota and their sole interest is to produce that quota with the least trouble to themselves and with the greatest profit to their shareholders."

To another witness:

*Q* (On behalf of the promoters) : "Do not you recognise that the idea will be to equate supply to demand?"

*A* : "Yes, in the abstract; but a fixed system such as this can take no cognisance of a sudden change of demand from a manufacturer's point of view. Your system of quotas is all right if all sugar is the same, but from our point of view all sugar is not the same."

## CHAPTER II

THE evils from which the world is suffering are to be seen in an exaggerated form in the history of the United States in the last ten years, and it may be interesting to see how far the general argument of this book is borne out by their experience.

It might almost be taken as a definition of capitalism that it is a state of society which believes progress to depend on encouraging people to guess about the future, and helping them to guess right. Unless people are willing to guess, no wealth will be set aside to form those huge aids to labour, without which modern standards of living would never have arisen, and would soon vanish again. While, unless they guess sufficiently right sufficiently often, you will get those tragic manifestations of error which we call the depressed areas:—accumulations of capital resources which cannot sell what they can produce, and cannot produce what they could sell. Now let us consider a

little more in detail the greatest contemporary object-lesson of what happens when a highly capitalist country finds, first, that its guesses are very wrong; and then, like the scorpion stinging itself to death with its own tail, makes it hopeless, and even wicked, to guess at all. The first is America under Hoover, and the second is America under Roosevelt.

It is hardly necessary to give chapter and verse for the unparalleled extent of the wrongness of America's guesses prior to 1929. It was the "new era." Mr. Hoover in a speech at San Francisco in the summer of 1928 said: "The outlook of the world to-day is for the greatest era of commercial expansion in history," and a few days later in accepting the Republican nomination for the Presidentship he said: "Unemployment in the sense of distress is widely disappearing, we in America to-day are nearer to the final triumph over poverty than ever before in the history of any land. The Poor House is vanishing from among us." While the great Mr. Irving Fisher, the economist, six weeks before the first crash in October, 1929, which was, at that time, the worst ever known, though worse still was to come, said

without qualification: "There may be a recession of stock prices but not anything in the nature of a crash." There was to be an "American Plan," and all the rest of it.

Now why were all these guesses, which could, of course, be multiplied indefinitely, so wrong? It is no use putting all the blame on the banks, though no one who has grown up accustomed to English banking standards, finds it easy to discover anything in the United States that looks very much like a bank—with about half a dozen exceptions. After all, *everyone* made the same sort of mistake. Some, of course, were just crooks, some just fools, and some, probably the majority, only fell into our usual human error of believing a thing because we want to believe it. But, I repeat, almost everyone made the same kind of mistake in their guess about where they were going, for about five years on end. Does it not suggest that there was something wrong with the traffic indicator? I contend that there was. It was practically impossible to make any intelligent calculation and impossible to make an indefinite series of lucky guesses, because

the principal danger signals had been deliberately put out of action, as the theories of Mr. Keynes had advised.

There was, and should have been, an enormous increase in the real production of wealth in those years. If this had been allowed to have its proper effect, there would have been a rapid decline in the price of most of the existing forms of wealth, and only so much would have been produced of those forms as could have been disposed of to the consumer. In so far as prices fell, that would have made new persons willing and able to buy out of their earnings. And beyond that it would not have been profitable to make things; nor to make the equipment, such as machinery, which was needed to make them.

Thereupon the inventive talent of the United States would have set to work to use the cheap savings consequently available to exploit new wants for which people were willing to pay.[1]

[1] It is so difficult to persuade some politicians of the reality of the existence of these endless *new* opportunities for production and consumption and employment, that it may be worth noting that in 1932 more new patents were issued in the United States of America than in any year on record. The following are instances of new industries taken at random.—Electric refrigerators doubled in five

There would have been a rapid increase in real prosperity but nothing in the nature of a boom. No wild speculation nor bidding up of land and of capital values, and incidentally no opening for financial jerry-building of holding companies, investment trusts and the rest, and no huge increase in debt.

How vast this was, and the extent of the jerry-building, may be gathered from such facts as the following, which are typical.—New York Central Railway Common Stock fell in two years from 200 to 25, while an investment in several of the principal investment trusts worth a hundred dollars in 1929 would have been practically unsaleable at 1—5 dollars two years later. As to the increase of debt, the following facts are significant.—The total internal long term debt of the United States rose from 38,000,000,000 dollars in 1913 to 126,000,000,000 dollars in 1929. The state and local debt nearly doubled in the seven fat years before the '29 crash, while the Federal debt was $3\frac{1}{2}$ times pre-war, the State debt five times pre-war, and

years. The aeroplane passengers were less than 50,000 in 1928 and over half a million in 1932. A new use for rubber in clothing known as Lastex sold 32,000 pounds in 1931 and two million pounds in 1934, and so it goes on.

what we should call the local authorities debt four times pre-war.

In view of these facts it is hardly surprising that in March, 1934, there were over 2,000 local governments in default!

New York City, by no means one of the really comic-opera municipalities, doubled its assessments and expenditure in eight years. It is of some interest to observe that the indebtedness of the United States was increasing some three times as fast as its wealth or income was increasing, and it is not entirely a coincidence that if you tabulate the tax collections per head of each state in the Union, you come across, first, Michigan where the bank crash began, Delaware, where they closed next, and New York and New Jersey, where the whole edifice finally dissolved, are right at the top.

The mania for rising prices at all costs, is so fashionable just now that some may hesitate to accept the truth of this view. Would they consider the opposite fortunes of two industries of crucial importance to the American industrial system—the motor industry and house construction?

The one bright spot in the year 1933 has been the motor industry. It alone has kept the steel industry from almost complete disaster. When that industry has been running at about 40% capacity it was largely due to the motor industry. When their production slowed down, steel promptly collapsed into the region of 25%.

Now what are the facts? The average cost of an automobile sold in the United States was about 1,500 dollars in 1910 and about 1,200 dollars in 1920 and has fallen steadily ever since—with slight variations, of course—all through the boom and all through the depression, till it is now less than 680 dollars. Meantime, the quality and the endless "gadgets" included have, as everyone knows, increased out of all proportion. And although all the materials and wages have more than doubled in price, yet the price to the consumer has been decreased. Mass production, technocracy and all the rest of it have done their worst. You couldn't get anything much more glut-making than Detroit, if the glut theory were right. But then it isn't right. The cars are being consumed as fast as they are made. Consumers

and producers and investors are all catered for.

Now consider housing. At the peak of the depression housing was responsible for over two million unemployed in the United States. This is more than the unemployment in all the consumers' goods industries put together, and is only exceeded by the heavy capital construction industries, which accounted for about four millions. We all know the housing conditions of many of the United States tenement slums—as bad as anything we have to be ashamed of here, although they are a vastly richer country.

Again what are the facts? The cost of the average one-family house is nearly three times what it was in 1910, it was rising all through the boom, and is only a little less now than it was then and is rising again. It is an industry already in the grip of all those rings of producers and workers which we are asked to set up by statute. They have made no such advances in technique as the motor industry has done, they have all of them, whether manufacturers or Trade Unions, planned (i.e. restricted) supplies, and controlled (i.e. raised)

prices to the consumers. Looking at the matter in another way, the physical volume of building construction in the United States of America (much of it quite unjustified anyway owing to the boom hysteria) was never twice the normal figure over the average of the previous twenty years, but the total cost of that construction went up to over five times!

Finally, to reinforce the same contrast, and before leaving the housing problem, turn for a change to this country. Here, by orthodox Government finance, instead of the mortgage market for house property being practically destroyed, as it has been in the United States, money is pouring into the Building Societies. It can be borrowed at cheaper rates than we have known for almost a generation. The price of houses has been rapidly falling ever since the bold-spending policy has been abandoned. What is the result? It is common knowledge that this country is now enjoying a boom in housing of such dimensions that it is not only largely contributing to the fall in unemployment, but is bringing new housing standards within the reach of something approaching a quarter of a million families a year. Q.E.D.!

But in the United States, prices in general did not fall. They were not allowed to fall. Year after year there was scarcely a variation of 5%. Any form of capital therefore became fantastically valuable, quite apart from whether people were buying its products or were paying cash for them. There was so little need actually to pay for anything, since money was so easy, that no accounts on balance were ever closed.

It was the paradise of the "shoe-string" trader. Everything was the basis for a new leap in the dark. Every price whether of raw materials, manufactured products, or stocks and shares, was being held up by borrowing pools, hire purchase, margin business, etc., all on the expectation that you never had actually to *eat* the wheat, use and *pay* for the house, and *live on* the income the stock earned.

I think many will agree with me that no one, however much he desired to keep his head and form a cool judgment, *could* make rational use of the real wealth in his control (whether his own or other people's) under these conditions. It was no use even being sure that the situation was "unsound"; for that was merely tanta-

mount to doing nothing whatever until the bubble burst. Everyone can't do that, and of course as soon as enough people *do* try to get out while the going's good, the bubble *does* burst. And yet these were the conditions which produced the price level of 1926–29 which Mr. Roosevelt and our own currency mongers wish to reproduce.

Now let us consider America under Roosevelt. Here was a country never visited by invasion, by nature perhaps the richest continent in the world, almost independent of the outside world for raw materials and owing little to foreigners and owed a great deal; with no one to fear but themselves; and even after the orgies I have described, a national debt small in proportion to their resources when compared with ourselves; and with no long years of difficulty behind them to sap their vigour. And yet what did the new President find? Almost a complete cessation of business: every bank in the country closed, unemployment far heavier than any we have ever known (at least 15,000,000 were unemployed with a population only about three times ours), and everyone asking himself, "where can I find

anything and anyone I can trust?" Everyone's guesses had proved too wrong to be borne. The country had lost its nerve, and no one could or would plan for the future, for fear of being ridiculous. Nothing anyone can say of Mr. Roosevelt's administration can detract from the one vital service he rendered his country two years ago—he was obviously not scared stiff, and that was more than you could say of most other people in the public eye at that time.

Mr. Roosevelt's fundamental problem, then, was to persuade people to start guessing and calculating again, without reintroducing the lax monetary conditions which made them sure to guess wrong. And there seem to me two fundamental difficulties about the course he has chosen. I do not see how private enterprise will ever recover until his monetary proceedings and his attempts at planning are both radically modified. I do not propose to say anything of the effect on capital investment of the disorderly proceedings in Mr. Roosevelt's monetary speakeasy, because I have already devoted a good deal of space to monetary matters in general terms. I will only say that the enormous

increase in Government indebtedness, almost all of which is in the hands of the banks, the Deposit Insurance Scheme and the whole array of artificial price structures he has built up, seem to me to have already produced many of the worst technical weaknesses of Mr. Hoover's time, without Mr. Hoover's prosperity.

I want rather to consider the second difficulty which he has to overcome, namely the remorseless way in which a Government which gets entangled in business, has to go further and further unless it is beyond all possible doubt that it is determined to "get out" at the earliest possible moment. Every new step it takes stops some new private people from getting on with their job, and therefore compels it to go yet further, until either it becomes the only spender and employer and you arrive at complete socialism, or you don't get enough spending and you don't get your recovery. So far, the indications surely are that you get the worst of both worlds. Not being a socialist, you don't go far enough yourself, but you go far enough to frighten the private individual. Thus he has not in the least solved his employment

problem: it is still three times as bad as ours, and getting, if anything, worse.

The Public Works plans of the United States have been heroic—they have desperately tried to spend three to four thousand million dollars spread over several years. But long term corporation bonds were at the rate of over 5,000,000,000 dollars a year before the crash, and have fallen to negligible figures. Taking stocks and bonds together the pre-crash figure was about 10,000,000 dollars per annum which has fallen to about 10% of that figure!

Perhaps an actual instance is more instructive of the way in which private enterprise dries up and cannot be replaced by anything else. In 1929 American railways built over 85,000 freight cars. In 1933 they built 2,300. They built nearly 1,300 passenger cars in 1929 and in 1933 exactly 6! Not altogether disconnected is the fact that there are over a thousand million dollars of railway bonds to be renewed before 1936 and no one has the slightest idea how it is to be done unless either the capital market re-opens, or the state nationalises the railways.

In the United States, as elsewhere, just over a half the production of the country is of

capital goods. And if we look at the capacity of different industries to give employment, it is worth remembering that, even in a widely agricultural country like the United States of America, durable goods and construction give nearly twice as much employment as the manufacture of consumption goods, and so do trade and finance. But during the depression the durable goods sections have had five times as much unemployment as the consumption goods industries.

Owing to their faulty banking system, which had actually destroyed, or locked up, deposits of whole areas as big as English counties, the falling off in consumers' goods was much heavier than in England. At one time it fell off by about a third, but in capital goods it fell by four-fifths! New capital issues have fallen off by nine-tenths. And although the Government and municipalities have almost doubled the National debt and commitments in about four years (in passing, think what that means—suppose we had added 7,000 million pounds to our debt since 1930!) the falling off in private capital investment was at something like double this rate. Moreover a

great part of the Government borrowing is not going into capital investment, but is being used for relief, so that it does not really fill the gap left by the falling off in private investment.

If this were a history of the Roosevelt recovery administration, one would have to deal at length with some of the contributory factors, such as the National Securities Act, which practically made it impossible to issue private securities at all. At this stage I will only say that it was drafted by a very clever socialist lawyer and had the effect that one would expect from the "reform" of any clever socialist lawyer. In particular it made it easy for any bank to issue the bonds of a municipality or a co-operative organisation, however insignificant, corrupt or heavily indebted (even if they are actually in default), but it made it impossible in practice for any private undertaking, however sound or important, to raise money at all. The result has been that at one time, of the tiny trickle of new investment still left, 94% was for municipalities! In figures, the position is that in the eight months after the passing of the Act, issues of securities subject to it, fell by

30% and the issues of exempted securities rose by 25%.

We all know what American municipal finance is like. But do not let us think there is anything peculiar to the United States in the consequences of a long period of borrowing by public authorities, with the resulting opportunities for corruption. A recent very painful report of a Royal Commission upon one of our own British Dominions contains these words: "As a result of the extravagance of the post-war period a debt has been incurred which is out of all proportion to the country's capacity. The debt is due primarily to persistent extravagance and neglect of proper financial principles on the part of successive Governments during the years 1920–31. There is general agreement that the process of deterioration which has now reached almost unbelievable extremes may be said to have set in about a quarter of a century ago. Evidence tendered to us from all sides and from responsible persons in all walks of life leaves no doubt that for a number of years there has been a continuing process of greed, graft and corruption which has left no class of the community untouched by its insidious

influences." So we know what to expect after a prolonged period of Mr. Elliott who is going about the country (I quote from a speech of his reported in *The Times*) saying that he will do his utmost to obtain public money to subsidize agricultural activities "even if I have to storm the Treasury."

But now let us look a little at the result of this expenditure by Governments and municipalities on the business of private corporations as it worked out in a typical case, chosen almost at random.

Mr. Roosevelt's Government passed a law to provide a large sum of public money for developing the Tennessee Valley. The preamble to that law states that one of its objects is to develop the agriculture of the Valley by irrigation and by manufacturing new and cheaper fertilizers and so on. This at the very time, be it noticed, when still more public money was being raised by them to encourage farmers in other parts of the Union to bury the crops they have already grown, and to retire the land already cultivated from growing any crops at all! But another of the objects of this Act was to set up a public electricity undertaking at a

place called Muscle Shoals. Now there exists already a privately owned electricity undertaking, serving the largest town in that area, and at the municipal elections the project was brought forward of making use of the new Government subsidized authority (to the detriment of the existing authority built up at the risk of the private investor). By a law of the state of Alabama it was illegal during that election for the private authority to take any part in its own defence, even by combating false statements as to matters of fact such as charges. But the Government authority could and did use their public money to issue attractive rate prospectuses to the electorate with a view to influencing their decision.

In this particular case this unfair competition did not have its desired effect, but the reason is rather humorous. The ratepayers of the city concerned had previously owned a municipal undertaking of their own, which had always been a charge on the rates until they sold it to a public undertaking, who scrapped it as inefficient. Once a socialist, twice shy! But is it surprising if the private investor is

slow to come back into the field when such things occur?

Once again do not let us think these things are symptoms of peculiar American viciousness. It was an English municipality that filled up the pipes on its housing estate with cement so as to make it impossible for its tenants to get the private company's gas which they wanted and were willing to pay for, and thus to compel them to use the municipal electricity which they didn't want.

But indeed the point can be illustrated from all over the world. Wherever there is fear that a Government may extend their activities, it immediately produces paralysis in the ordinary public. Another instance may be taken almost at random from another continent. The instance affects one of this country's large investments in South America, the Buenos Ayres and Pacific Railway. Some years ago the Government there built a branch of their state system in direct competition with an existing line of the above railway, but by a longer and less convenient route. They endeavoured to force the private concern to charge more than themselves in order to "equalise the conditions"

i.e. as their railway was in a bad place they tried to compel the privately owned railway to charge an unnecessarily high rate in order to pretend that they were in an equally bad place! Not content with that, they later proceeded to spend public money in actually paralleling a further part of the private system—a part, incidentally, which they originally owned themselves and sold to the private owners! These owners they now threaten to deprive of their property at the public expense, just as the Tennessee Valley authority tried to ruin the private electricity undertaking. The ways of Governments in business are the same all over the world.

Returning for a moment to the question of propaganda paid for by public money, it is worth recalling that it is not only awkward statements by private individuals which have to be prevented if they conflict with Government or municipal desires and ballyhoo. The Federal Reserve Board itself had to discontinue an analysis of the statistics it publishes, and influence was brought to bear to discontinue the routine publication of information by the American steel industry, when they began to

arouse doubts of the permanence of the little inflationary flutter of the summer of 1933.

Nor again need we imagine all this began with Mr. Roosevelt. For years the Government of the United States had under Mr. Hoover kept up elaborate Departmental organisations on the lines of the milk publicity organisation which Mr. Elliott has set up in this country and endowed with nearly a million of our money. It transpires that asphalt, cement, and many other industries contributed very large sums privately to these organisations, in order, in effect, to get Government boosting for their products. For example, the "secondary Road Institute," alias a Mr. van Petter, thought it worth while to contribute some £40,000 for "tuition" of the public in the use of asphalt—not by straightforward commercial advertising but by, with and from, a Government department.

The extent of the opportunities for blackmail and bribery when colossal sums of money, and vaguely drawn "emergency" powers, are both in the hands of politicians has to be seen to be believed. We have a large Baltimore gas undertaking threatened with the construction of a

municipal plant if it doesn't comply with certain directions; we have a firm with a valuable Government contract threatened with its cancellation unless the firm cancelled orders with another firm which was at loggerheads with the administration; we have a leading attorney acting for the Cuban Sugar interests, sitting at the same time as official Government adviser drawing up the code regulating the sugar industry of his competitors; we have the open and prolonged bullying of the Ford undertaking. We have a firm compelled to sell all its electric transmission and distribution system to a Government department by the threat to construct a publicly subsidized competitor over its area of supply.

But do not let us believe that bullying, and what is next door to blackmail, is a peculiarly American vice of Government departments and municipalities who don't want people to know what they are doing and don't like people saying what they think about it. In the last few years we have had such edifying spectacles as the city fathers of Nottingham summoned before the Committee of Privileges of the House of Commons for resenting even that august body

interfering with their proceedings. So it is hardly to be wondered at that they endeavoured to frighten Sir Ernest Benn from publishing some comments on their expenditure by secretly threatening a libel action (after a meeting in camera). It is comforting to recall that when he called their bluff they had to withdraw and pay the costs of the action—or rather the rate-payers of Nottingham had to pay it for them.

Every allowance must be made for the undoubted fact that public psychology and the banking situation were very different in the United States to our own. But the American experience seems to me to show conclusively that the element of socialistic anti-profit mongering and bureaucratic interference in the N.R.A., coupled with monetary misconceptions and irresponsibility, have desperately handicapped and so far practically crippled the extremely courageous efforts of Mr. Roosevelt to solve his problem.

To sum up, if it be true that the key to reducing unemployment where it is most severe, and the key to future prosperity for the world, alike depend on reviving private investment in productive capital enterprise, this will

never happen so long as private enterprise in difficulties is handled on the lines of the lady described by the fool in King Lear, "She put the eels in the paste alive and knapped 'em 'o the coxcombs with a stick and cried 'Down, wantons, down'!"

## CHAPTER III

LET us turn now to examine a typical experience in our own country to see whether we find the same lessons being taught us by hard facts. I will take as my example the sugar industry.

The sugar industry throughout the world is one which has for years before the War been developed, not in response to the economic needs of the world, but in accordance with the varying decisions of Governments all over the world. It therefore gives us good material for observing how far Government can be trusted to improve matters by interfering in business.

About half the sugar produced in the years before the War was beet sugar, and all the beet sugar was uneconomic. That is to say, it was only produced because either by bounty or tariffs the consumer was prevented from buying the cheaper article made from sugar cane. During the War the beet sugar countries were out of action and the price of sugar rose very

sharply, while the increased output of cane sugar began to fill the gap. The total world supplies were not significantly greater than before the War by the time peace conditions had really returned about 1920. There was indeed a shortage and a rapid speculative rise in price, due partly to the boom conditions in America (which uses about half the sugar entering into international trade), partly to a shortage owing to the War.

The boom, like all booms, broke in 1920 and there was a rapid fall in price, still without anything in the nature of a glut in supplies. But the European countries began to rebuild their artificial supplies at their taxpayers' and consumers' expense, just as our own Socialist Government in 1924 began to make matters worse by subsidizing beet sugar in England. By about 1930 a real glut *had* developed because it had been paid for. The taxpayers of this country alone had by that time found about 30 million pounds to secure its share of the glut. The Cuba suppliers of cane sugar were still producing from the new planting of the boom period, while the farmers of Europe were being bribed to produce new supplies. In

addition the high boom prices had brought forth new sources in the Far East.[1]

Various efforts were made in the post-war years to hold up prices, with the natural result that supply kept up at the high level and they all one after another broke down. It is important, however, to notice that in this, as in all the other cases of alleged glut, the amount of stock, though enough to have an extremely depressing effect on prices, was not in itself particularly large, in the sense that a great increase in consumption could have taken place out of the stock. At the most it amounted to about eight million tons, being only about three to four months of world production. If there had been no sugar produced for four months nobody in the world could have had any sugar to eat.

In these circumstances it would have been thought that every effort should have been made to concentrate production on the most efficient areas, and to avoid increasing the supply. The British Government of the day, however, decided to start an entirely new source

[1] World production went up by 11 million tons between 1920 and 1930 of which 7 million was increased European beet sugar.

of supply in a particularly unfavourable place —in these cold islands. Cane sugar grows about six tons of sugar an acre while the very best beet sugar is never more than two and a half tons an acre and the average in this country is about one and a half tons. The net result was that from 200,000 up to 500,000 tons of sugar per annum have for several years been grown in this country, an amount much more than sufficient to account for the whole falling off of our imports of our own British colonial sugar from our colonies at any time during the depression. The natural result of this fall in the price, which we were so busy aggravating by subsidized competition in the only important market, was that the West Indian Colonies were reduced to destitution and the British taxpayer had to find by a special Act of Parliament approximately a quarter of a million pounds to compensate them for not growing cheap sugar, while he was at the same time paying something like five millions a year to the beet sugar interests to grow dear sugar in England. This is known as rationalizing saving and investment!

Not content with this, the Government so arranged the subsidy that it encouraged the new

subsidized factories to refine the raw sugar which they made from beet, with the result that the men they employed on refining this sugar were neatly balanced by the men thrown out of work at the great refineries who had to compete with them without any subsidy. Indeed, out of their profits they had to find income tax with which to pay the subsidy to their rivals! At one time, owing to this admirable improvement on the old "chaos of unregulated competition," one of the greatest and most profitable refineries in England was actually closed down in order to enable the refining to be done at the taxpayers' expense at a factory such as the Orchard Sugar Refining Company, which eventually went into liquidation owing to inefficiency. This lost the taxpayer a sum of about a quarter of a million which he had guaranteed in order to have the luxury of starting a refinery to work at a loss, and closing down Messrs. Tate who were working at a profit.

How grotesque the sums taken from the taxpayer must have been, can be realized from the following figures. The whole loot handed over is more than £40,000,000. It has cost over

£100 a year for every man employed directly or indirectly by the industry, including all the agricultural labourers; whose wages, at an average of £80 a year, are therefore more than given free to the industry by the taxpayer. It will be noted, of course, that this takes no account of the obvious and admitted fact that much of this agricultural employment is not *extra* employment at all, and should not be credited to the beet sugar industry. For where beetroots are now being grown, other root crops were previously being grown, the only difference being that those crops had to be paid for by the people who bought them, while the beet crop was in effect handed over free to the beet sugar industry, and paid for by the taxpayer.

If only the labour employed in the factories and refineries is taken into account, the cost per man works out at between £300 and £400 a year, according to the famous May Committee which naturally looked forward to ending the whole proceedings. And, once again, this does not take into account the fact that half of this employment is not really to be credited to the beet sugar industry at all, for all the men

employed in their refining processes, which is more than half the total they employ in or about their works, only displaces, as I said a moment ago, the work that would have been done anyway at the great refineries built up by private enterprise. Every man taken on to do refining in a beet sugar factory has put out of work another man at Messrs. Tate & Lyle's. For, of course, the mere fact that you have set up these beet sugar factories did not increase the total amount of sugar which the public required. The only difference therefore was that in order to have a refiner at work, the taxpayer paid £300 in order that he should be employed at a beet sugar factory instead of being employed at Tate & Lyle's.

Looking at the figures in another way, the subsidy from the taxpayer has been so great that the whole of the raw beet grown by the industry has been bought by the taxpayer and given away free to the beet sugar factories. At a time when sugar could be bought for about 6s. a cwt. the subsidy amounted to sums ranging from three times that figure down to a figure which at its lowest was equal to the whole of the cost of the sugar. Even when the

subsidy had fallen to its comparatively low figure in October, 1931, it would have cost the taxpayer less to abolish the subsidy and buy an equivalent amount of sugar and give it away *free* to the unemployed! Another aspect of the labour problem is to observe that these factories only claim to employ some 10,000 men directly, which is less than are employed by such a firm as Messrs. Rowntree, some forty to seventy-five per cent. of whose products consist of sugar. The principal manufacturers such as confectionery, chocolates and jam employ ten times as many people as the beet sugar industry, and are vitally concerned with the price and quality of their principal raw material.

Now what has happened to all this money? Let us follow the fortunes of two very different types of undertaking. In 1924 a very shrewd Dutch sugar manufacturer, Mr. Petrus van Rossum, found himself with two factories in Holland which had been shut down. He floated a company in England and he sold all the second-hand machinery to it (no doubt at quite a fair price) in order to take advantage of the generous offer of the British Government. Knowing a

great deal about sugar, he has been able to show the following results.—The capital at Cantley of his company was £500,000. He had accumulated enough money to pay himself back all his capital in seven years and in addition in those years alone had paid as dividend three-quarters of a million pounds, he has no loans or debentures outstanding and has written down his assets to half. As his output of sugar is about 40,000 tons a year he must have received at least half a million a year in subsidy. So in effect, at the time when Income Tax varied from four to five shillings in the £, we were giving him and his friends all this money to buy himself an enormously profitable factory (earning profits after Income Tax of something like 30% per annum), seriously damaging our own refining industry meanwhile. All this time, be it observed, over one-third of the capital is *known* to be in Dutch or other foreign hands, and in the first seven years of the subsidy two-thirds of their expenditure on plant and machinery was admitted to have been spent abroad!

So much for a factory that at least is efficient. But when millions of public money are going

for nothing, one may expect to find others attracted who are not even that. Let us see. Mr. van Rossum manages to make beet sugar with a capital of about £15 to £20 a ton output. Another large group of undertakings needed a capital of £40 per ton to do the same work (rising in one case to over £50). By a charming coincidence this group is closely allied with a large firm of public works contractors who doubtless viewed with resignation a capital expenditure on equipment three times as great as was apparently necessary for Mr. van Rossum. Under these circumstances it is hardly surprising that one has never paid a dividend and had to write off something like two-thirds of their capital, one of them was in the hands of a Receiver, and had at a recent date debentures and loans outstanding to the extent of more than its capital. In addition the taxpayer has given considerable guarantees under the Trade Facilities Act which we shall be lucky if we are not called upon to pay in their default.

The great British sugar refiners when they were compelled to go into the business themselves (to avoid the clear possibility that their

whole business and goodwill might be ruined by the new unfair competition) managed to do with very much lower figures of capital expenditure still, the Bury St. Edmunds factory being less than £9 per ton. In passing we may note that this factory had "preliminary expenses," blessed word beloved of all company promoters, of only some £3,000; but the promoters of the factories of comparable capacity in the group we are now discussing got away with £112,000 under this head before they started operations! Seeing that the Government has already had to face losses under these guarantees to similar factories, one hopes that these experiments in "planned investment" will not be taken as precedent.

Now let us see where all this has left us. It is admitted that the consumption of sugar in this country, is about 2,000,000 tons a year. Before the taxpayer was bled for this £40,000,000 all this sugar either came in ready for consumption, or passed through the refiners, namely, Messrs. Tate & Lyle. By common consent they are one of the most efficient, prosperous and fair-dealing firms in England, whose reputation is as creditably world wide

as Messrs. Rolls-Royce. The capacity of these refiners was within 10% of 2,000,000 tons. That is to say they were exactly suited to the demands of the case. This industry was completely rationalized if the wretched word has meaning at all, until the Government came in and spent 40 million pounds of our money derationalizing it by setting up the beet sugar factories. The whole of which, of course, would collapse at once if the subsidy were withdrawn; and the whole of whose capacity is surplus, and the only surplus there is in the whole business. Their production is about half a million tons and their capacity possibly three times that.

This brings us to the present day. As a result of financial strain, and perhaps of the fact that the financial scandal which I have been describing is gradually sinking into the public mind, it is urgently necessary for the Government to bring the subsidy to an end. Indeed, it should have come to an end last year—1934—for it was expressly limited to ten years, and everyone who entered the industry did so knowing that this was the express published intention of the Government. But a special

extension for one further year was granted by an Act passed by the present Minister of Agriculture, in order to give him time to get the various interests to agree to set up some alternative machine for extracting the necessary millions in perpetuity from the public. (About four millions a year of public money is necessary in some form or another to prevent the beet sugar industry from going broke.)

The refiners, of course, have no interest whatever in doing anything. They can earn a reasonable living and produce all the sugar we need at a price we can pay (cheaper than any country in the world, incidentally). But, of course, that doesn't suit the book of the Minister of Agriculture who can only hold *his* job as long as he continues to provide, and if possible increase the capacity of, the various machines whereby the working classes, the manufacturers and town dwellers generally of these islands, are mulcted for the benefit of the agricultural constituencies which return the hard core of the Conservative party to which he now belongs.

There are two other ways in which he can get the money, and to explain them we must go

back a little and explain perhaps the two most important Acts of Parliament in the last five years—the Agricultural Marketing Acts 1931 and 1933. The first we owe to the last Socialist Government which was defeated in 1931 almost immediately after passing it. The second, containing amendments making it much more effectively socialist than it was before, was passed by the present Minister.

The net effect of these two acts is as follows. If the Board of Trade so decide, they may make it a criminal offence to import more of any agricultural products than they decide to allow us to buy. If they do that, then the Minister of Agriculture may by order make it a criminal offence to sell such of the home-produced articles as they may decide shall not be sold. The penalties are very severe, running into fines of hundreds of pounds and in some cases imprisonment, and the fines may be paid to a man's competitors instead of to the state.

The Ministers may by order give any particular people the sole right to produce. They may give it to A to-day and B to-morrow. They may allow A to make B (both being English taxpayers) pay him large sums, without

any limit, for his own profit, for the right to remain in business. They may also set up secret enquiries, and public enquiries whose reports need not be, and in fact never are, published. These enquiries have almost unlimited powers to find out trade secrets and financial results and prospects. And then nominees of the Minister or persons elected by their competitors may be given the right to enter the business themselves. The board they set up, may refuse anyone they like the right to continue in business, and they may and do proceed to buy or sell the particular product, to produce anything they like from it, to hold it off the market by borrowed money, to compel all producers to sell the whole of their output to themselves and to no one else. In fact, they have a cast-iron statutory monopoly. They may fine any one of their competitors, at trials to which the public are not admitted; or close his factory by refusing him a licence if he sells below any prices they may decide; and if they make a loss they may levy fines of unlimited amounts on the remaining producers.

In short, the whole of the food and all the raw materials of this country which come from

the soil or from animals, can be and are rapidly being, handed over to monopolistic control. There are 72 pages of powers and penalties in these two Acts, beside those described above, but it will be seen that the situation can be summed up in a sentence. Any person or persons, or a board set up by such persons may be and have been, given (*a*) the power to profit by closing the ports of this country to produce from the colonies, dominions and foreign countries, and (*b*) a complete legal monopoly of home production.

With so much by way of preliminary, let us see how this machinery is being used to transfer the burden of keeping these costly toys—the beet sugar factories—from the taxpayer to the consumer. An elaborate and expensive enquiry, with learned counsel appearing before other learned counsel, all at the taxpayer's expense, has been held. So fortunate are these enquiries for the lawyers that there aren't enough lawyers to go round—one of them held up the sugar enquiry because he was appearing at the same time at an enquiry into cream—at an appropriate fee, of course. And the following facts emerge from the Acts and from the enquiry.

Obviously almost anyone can make a profit if he can prevent the consumer of some vital foodstuff, such as sugar, from getting any alternative supply. Hence if only the supply of sugar can be kept down either by a quota on imports or by an increased duty, then the price of sugar will increase until even the most inefficient sugar factory is a paying proposition. Whereupon the subsidy can be withdrawn. The promoters of the sugar marketing scheme under these Acts were represented part of the time by one of the drafting counsel of the Ministry of Agriculture, who was moreover publicly stated to have had a hand in drawing up the scheme, so that full responsibility must be taken by the Government without whom this scheme would never have seen the light.

*The Commissioner :* "I should be very much obliged also to Mr. Alexander if he would try his hand or if those with him would try their hands, but I happen to know who is with you, Sir Norman, and he is a gentleman who is possibly as well used to drafting these clauses as anybody in this room. Perhaps you had better try your hand also."

*Sir Norman Raeburn :* "The point is that Mr. Lindsay thought he had done it successfully under Clause 77."

Here we have therefore a public admission that the Ministry of Agriculture had in effect drawn up this Scheme, Mr. Lindsay being one of their Parliamentary draftsmen.

The following questions and answers at the enquiry during the examination of the only witness called by the promoters are also enlightening:

*Q* : "This voluntary scheme has been in operation for twelve months?"

*A* : "Yes."

*Q* : "And it has worked very well."

*A* : "Yes."

*Q* : "Is there any reason why it should not go on working well as a voluntary scheme?"

*A* : "No."

*Q* : "None whatever?"

*A* : "No."

*Q* : "Then what is the object of this scheme?"

*A* : "We promised the Government . . ."

*Q* : "Exactly!"

. . . . .

*Q* : "It (a secret agreement with regard to the refiners' profits) is part of the proposals is it not? Would you care to tell us now what the whole of those proposals are?"

*A* : "I am precluded from doing so because they are confidential. They were made to the Government and they are under the consideration of the Greene Committee."

*Q* : "Then why tell us this one? Was this not confidential too?"

*A* : "It was, but I wrote to the Government and also to the Greene Committee and explained the circumstances under which we found it necessary for the assistance of Mr. Commissioner that this should be disclosed having regard to certain objections and suspicions that those objections suggested, which we intended to dissipate, as to price."

. . . . .

*Q* : "But this undertaking, Mr. Wood, is merely a part of the plan that you are going to put before the Greene Committee?"

*A* : "It is part of the plan that is already before the Greene Committee."

*Q* : "And you are precluded from giving us the other part of that plan?"

*A* : "I am."

*Q* : "Do not you think we might be very interested in the rest of that plan?"

*A* : "I am sure you would be."

. . . . .

*Q* : "Would it be possible for you to answer this question, to relieve the mind of the public who are watching this inquiry? Have your interests discussed with the Government, the interests you represent,—the addition of 2s. 4d. per cwt. in order to take the place of the subsidy?"

*A* : "We have not discussed anything with the Government. We have put forward proposals in writing."

*Q :* "And have you made that proposal—that there should be an addition of 2s. 4d. a cwt.?"

*A :* "I cannot say what the proposals are, and I cannot say what are included and what are excluded."

. . . . .

*Q :* "You have not told me whether you have proposed a farthing duty?"

*A :* "I am not going to tell you anything."

. . . . .

*Q:* "Did the industry in their proposals to the Government include a proposal for a special Act of Parliament which would authorise the Sugar Board to make a levy on sugar?"

*A :* "I think I should be committing a breach of confidence if I said that they did or they did not.'

*Q :* "And would you say the same thing if I asked you if the levy was discussed at 2s. 4d. a cwt.?"

*A :* "I think I should be committing a breach of confidence if I said that they did or they did not."

*Objector :* "Of course my submission is that the public is not sufficiently protected at this stage of the enquiry into the sugar industry, by reason of the inability to obtain necessary information for the public from the witness."

(By the Commissioner, to the sole witness on behalf of the ring, with regard to negotiations between the refiners and the beet sugar factories.)

*Q* : "And the bargain was 'we will do that by giving them the refining of the smaller quantity than ours; we will give them five-nineteenths and keep for ourselves fourteen-nineteenths?'"

*A* : "Yes."

*Q* : "Sharing the market?"

*A* : "Yes. They shared the market."

*Q* : "That was the bargain and the Government made them come to that bargain; they said 'you must fix things up among yourselves; we must not have this clashing.' And that is why they agreed on those proportions?"

*A* : "Yes."

Further on the Commissioner asked:

*Q* : "I see. They have made an arrangement before the Scheme is in existence as to how they will work the Scheme."

*A* : "In that respect, yes."

*Q* : "It is not binding?"

*A* : "Yes, it is binding. It is not binding under the Scheme."

The promoters naturally do not admit that they wish to put up the price of sugar, but they were unable after six days of enquiry to suggest any function that the scheme would serve except the setting up of this statutory monopoly

to the existing producers: good, bad and indifferent alike. It should be realised that a rise in the price of sugar by ¼d. per pound would take over £4,000,000 a year from the consumers of sugar and be sufficient if it were all handed over to the Dutch and their colleagues, to enable them to agree to abandon their direct claim on the Exchequer.

An alternative way provided by the Acts would be to use their powers to raise a levy on the firms in the industry (there are only twenty-two all told) payable on all their output, and then pay the proceeds over to the beet sugar factories. As far as the consumer is concerned the result is, of course, the same. Instead of the taxpayer keeping these Dutchmen and contractors, the consumers of sugar will do so for ever. The scheme lays down that these twenty-two firms shall be the only people allowed to sell sugar from now to the day of judgment, and in the scheme there is no limitation for ever on their profits.

Of course, there is one remaining fly in the ointment even for a perfect monopoly in an essential foodstuff: people simply may not be able to afford to buy at the higher price. And

it is worth remembering that, if we compare 1923 when sugar prices were high, with 1933 when they were very low, England's consumption of sugar went up 24% and is still lower than the consumption per head in the United States. Moreover, consumption per head in England went up 50% between 1921 and 1928 owing to better trade and cheaper prices.

This brings us to the most amazing and disquieting thing exposed by the whole proceedings before the enquiry. Messrs. Tate & Lyle are an exceedingly efficient body and make large profits even though exposed to great competition (about 17½% was paid last year). The best sugar factories for their part are so heavily subsidized that only the most inefficient manage to avoid having something of the subsidy left over with which to pay themselves a dividend after making up their losses. Once they all have this monopoly of a vital foodstuff, it is clear that they become to all intents and purposes owners of a gilt-edged security. To endeavour to limit the evils of this, a private understanding with the Minister of Agriculture personally was divulged,

stabilizing for all time, apparently, the existing margin of profit in the refining section of the industry. This is a margin which allows these large dividends: a margin which may or may not be justified while they are exposed to the risks of a speculative private business, but surely unconscionable as soon as they become in effect a public utility, protected by statute. On the other hand, there is nothing whatever, in the scheme or out of it, to limit the profits of the beet sugar side.

The following instructive dialogue took place on this point, following on a suggestion on behalf of the ring that if the price went up by 9d. a cwt., unlimited supplies of Empire sugar would come in. This, it may be noted, incidentally, is quite an unwarranted assumption, because the moment the scheme came into force there would be powers to put a quota on Empire sugar and prevent this. And it is common knowledge that Mr. Elliott has been moving heaven and earth already to persuade the Dominions to allow him to limit their imports of other foodstuffs. But even supposing Dominion sugar imports were allowed by Mr. Elliott,

*The Commissioner* : "You have referred to the figure of 9d. three or four times."

*A* : "Yes."

*The Commissioner* : "That ninepence might be multiplied by 40 million cwts.—that is the consumption in this country per year; that comes to a very large sum, does it not,—one and a half millions of money?"

*A* : "We have still got ninepence to play with to get more profit."

*Q* : "You would have power to put ninepence on your price per cwt. We are told that there are forty million cwts. consumed in this country every year."

*A* : "Yes."

*Q* : "Therefore you would add upon the consumer's back ninepence multiplied by 40 millions."

*A* : "That is true."

By what possible perversion of the constitution can we justify an agricultural policy which first sets up a ring who come before the public enquiry and take great credit to themselves because they are not taking powers to fix prices, and then finishes with the disclosure that a Minister has settled, privately and by no legal process, the trade rake-offs of private firms, and bases the existence of new monopolies in our foodstuffs on the strength

of such agreements? Whether or not the terms of this particular agreement are fair, and however faithfully it may in fact be kept by the refiners is, of course, quite irrelevant. By what authority are such agreements entered into? In this way Ministers of the Crown are in effect linked by a sort of interlocking directorate with companies operating solely for private profit, and responsible to no one but their shareholders.

That the interests of these shareholders may differ from the interests of the public can be easily seen from what has happened already. It was unearthed at the enquiry that, after Mr. Elliott had encouraged the industry to "get together" and "compose their differences" as he expressed it—(in other words arrange the terms upon which they kindly agree to become the unrestricted owners of a monopoly in sugar in this country),—a secret voluntary scheme of working was set up as a trial-trip for his scheme, now proposed under the Agricultural Marketing Acts. With this working monopoly thus achieved, and under the shelter of the tariff on sugar, Messrs. Tate & Lyle are now selling sugar abroad to the foreign manufacturer at 30% cheaper than they sell it to the British

Confectionery industry, such as Messrs. Rowntree and Cadbury. What is the use of talking about the wicked foreigner who dumps in England below his home cost, when we are dumping £2,000,000 of sugar a year upon terms such as this?

I conclude, therefore, that both American and English experience fully bears out the objections in principle which I have advanced against this bureaucratic economic octopus which many people worship and dignify with the name of Planning and Self-Government in Industry.

# CONCLUSION

# CONCLUSION

In this brief concluding chapter I wish to sketch the sort of way of looking at some of our problems which seems to me to follow from the thesis of this book.

I have contended that most of the world's present troubles are the inevitable price to be paid for economic crimes: the War, reparations, War debts, international lending made bad by economic nationalism, the disturbance of the world's currencies following on the great American inflation, and so on. They are not due to any fundamental defect in the world's economical and financial arrangements. If this be true it follows that no heroic measures or ingenious short cuts are to be looked for. They will only make matters worse by delaying the return of private enterprise to the service of men's economic wants.

Taking first finance, I do not believe there is anything of moment required to improve the main lines of the British machine. The

only things necessary are the negative virtues of not smashing it, by extravagance and political interference with public confidence in the banks. It would be out of place to waste time suggesting measures which might remedy old evils in the American banking structure, without producing the present creeping paralysis.

The main suggestion I will advance is in the realm of foreign exchange. Without quarrelling with the policy hitherto laid down by His Majesty's Government, have we not arrived at the point when sufficiently close guesses could be made for an attempt at stabilization of rates between the United Kingdom, the United States and the gold countries? On the other hand, is there not now sufficient evidence that Exchange Stability must precede, rather than follow, efforts at freeing trade? International lending and freer world trade, involving the abolition of excessive tariffs, quotas and exchange restrictions, these are the *sine qua non* of renewed prosperity. And so is the abolition of the bureaucratic machines which all countries are setting up in their home markets. I should guess that the dollar is still undervalued and the gold currencies

are almost certainly overvalued in sterling. So if it were possible to obtain agreement to choose the old parity between the United States and ourselves, while taking the opportunity of devaluing the gold currencies by international agreement, say to the extent of 10%, there would ensue an enormous improvement in the budgetary and internal trade positions of the gold countries, an immediate easing of the dangerous strain upon their political stability, without doing serious damage, if any, to ourselves. I should suggest an agreement for, say, five years introductory to a permanent stabilization.

It would probably be necessary to have a saving clause in the form of a private understanding between the three monetary authorities to use their resources up to specified agreed limits to neutralise capital transfers, with power as a last resort to allow the exchange to fall if these limits were exceeded. This is due, partly to the uncertainty of the American position (which is now so dangerous that another boom or another slump are either of them quite possible at any time); and partly to the fact that before the present excess of liquid capital is absorbed in renewed business, there

is still the chance of very large transfers from country to country, beyond the scope of the most determined exchange equalisation accounts to cope with.

Turning to home affairs, far and away the most important aim (and the principal aim of all opponents of the modern extremist socialism) should be the repeal of the Agricultural Marketing Acts. In the present state of parties this implies the amendment of the Tariff Acts to enable agriculture to have the same access to the Tariffs Advisory Committee as the manufacturer has, neither more nor less. For it is only fair to the Minister of Agriculture to recognise that if tariffs on foodstuffs are ruled out by his liberal colleagues, he must do the best he can to persuade the conservatives that the marketing boards are an effective alternative. Of course, if the vested agricultural interest is going to be strong enough to abuse the machinery of tariffs by obtaining prohibitive duties, then this change would not make any great improvement as far as the standard of living of the people of this island is concerned. But, even then, it would be well worth doing. For it would not hurt the

consumer any more, it would hurt the taxpayer less, and it would avoid the dreadful prospect of more and more experiments in bureaucratic tyranny in business. Incidentally, these experiments are waiting to fall like ripe plums into the lap of any extremist Government. In so far as any liberal members of the Government are handicapped by election pledges on this matter, it is earnestly to be hoped that they will free themselves from these pledges at the next election, especially as the financial consequences of these marketing schemes are rapidly becoming a danger to our Budget surplus.

I should hope that in the long run this country, with its overwhelming industrial population, would not allow the agriculturist to have much bigger blood-money than the manufacturers have obtained. In that case, with reasonably stable and not too high tariffs, the damage to our customers and the dominions would not be too great. Anyhow, if for the next generation we are only to have the choice between conservatism as expressed by tariffs, and socialism as expressed by bureaucracy, let us at least see that we *do* have that choice. As

long as the anti-socialist party is operating the Agricultural Marketing Acts, we have only the choice between socialism that is honest enough to call itself socialism, and socialism à la Walter Elliott.

To appreciate the extraordinary extent to which the Government are getting involved, read the following questions and answers at the Sugar enquiry:

*Q* (On behalf of an objector): "With regard to the shortage in September which Sir Norman has been asking you about, is it not true to say that the shortage was common to you and to Glasgow."

*A* : "Yes."

*Q* : "And that the matter was taken up with me in London?"

*A* : "Yes."

*Q* : "And that as a consequence there were negotiations between myself and the Board of Trade to prevent you being absolutely short of sugar."

*A* : "That is right, and supplies were liberated.'

What more have we to fear if Sir Stafford Cripps puts himself in control of British industry!

There are various other ways in which this country might be made a little safer for private

citizens to do business with one another. For instance, the speedy compulsory sale of municipal housing estates, to individuals or public utility societies, would, I believe, do much to encourage private investment in this field, and to discourage the spread of municipal competition in other fields.

There is one final general principle which I believe should be clearly borne in mind by any Government desiring to oppose socialism, and believing in private liberty and enterprise. It relates to the treatment of industries suffering from excess producing capacity, as a result of previous booms or abrupt changes in available markets. I am not concerned at the moment with the question of fact—whether there *are* any such industries. That is much more doubtful than is usually supposed. As a general rule, it turns out on examination that what is really required is nothing but a financial readjustment, recognising that a good deal of capital has been lost. As soon as that is done, the assets at their new, correct, lower value are still capable of earning a dividend. But there may be industries (cotton, coal, shipbuilding are possible illustrations) where this is not all

that is required. There really may be too great capacity to produce the smaller quantities now required by the new market conditions, at a price covering the cost of production, however low the capital valuation put upon the assets. In these cases it seems that there can be no objection in principle to setting up machinery to make the reduction more quickly, and equitably than the slow process of bankruptcy. This is one of those cases of discontinuity which we discussed earlier on.

But, and this is the vital point which is perpetually overlooked, though it is really very simple:—action must stop there. It must not be made the excuse for all sorts of quota machinery, restrictions on new entrants to the industry, and so on. That is merely setting up a privileged ring of statutory monopolists. Once you have cut down the producing capacity of the industry, if anyone thinks he can start expanding his factory or building a new one, so much the better. That's what competition is for. That is the way the increased purchasing power, which we all desire, is to come about; and the only way in which it *can* come about. That is the way to reduce

costs and recover international trade. There is all the difference in the world between forcing a man out of a trade he is demoralising by selling at a loss, and prohibiting a new man coming in who can make a profit by selling cheaper than someone else. Obviously no new man will come into the trade for the fun of selling at a loss. He plans to make a profit and he should be encouraged to do it. If he cuts into someone else's trade, that is what progress means, and what competition is for. You can stop him only at the price of stopping the only way in which the standard of living of our people is ever to improve.

To conclude, I believe there is much that can be done to improve the condition of the people of this country, but it can only be done if we have the courage to recognise, and to tell the public, the limitations on our actions. The people's standard of living is determined by forces quite outside the power of Government. And Government interference will hinder and not help its advance. It is upon the basis of free enterprise that progress can alone be made. Liberty is the source of production, just as markets are only to be secured by the

cheap service of the ordinary consumer. The post-war liberal seems to have abandoned both these simple traditions upon which the past prosperity, both of our country and his party, were largely based. The modern liberal (and the Y.M.C.A. young conservative) is tired of early-Victorian economic virtue and prepared to embrace the seductive advances of socialism, because he thinks the advance of knowledge has made such adventures fairly safe. He is in error.

In this country we have built up during the last century an unparalleled machine of social protection. It is based upon the belief that guidance and reasonable co-operation, can and should ensure that our huge industrial machine will do as little harm as possible in the course of pouring out its immense benefits. It is to the steady improvement of the voluntary and statutory social services, within a framework of free enterprise, that the true statesman will turn for his field of work:—not to "socialism" nor to "planning", nor to any other catchword for fussy and ill-conceived attempts to freeze the liberty and corrupt the independence of employer and employee alike.

# NOTE

As this is not an academic treatise I have throughout avoided giving specific references, but all the general facts and figures are available either in the United States or British or League of Nations official publications, and in readily available and reliable periodicals such as those issued by the great English and American Banks.

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